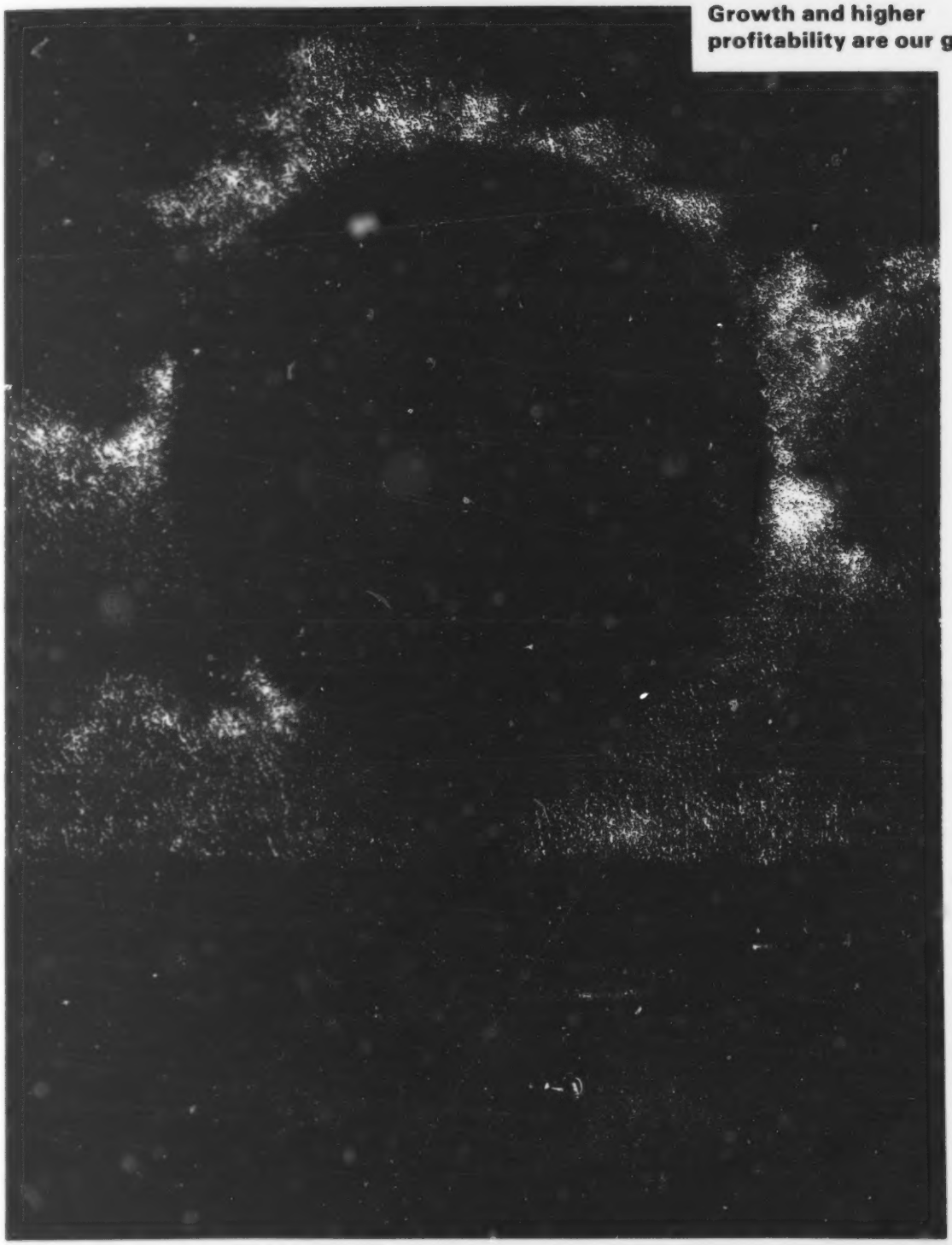

Growth and higher profitability are our goals

PETRO-CANADA

Corporate Profile

March 23, 1990

90-05527/

Petro-Canada is Canada's national petroleum corporation. Formed by an Act of Parliament in 1975, it is wholly owned by the Government of Canada. Operations began in January 1976. In February 1990, the Government announced its intention to privatize the Corporation.

Petro-Canada operates in a commercial fashion, competing in today's oil and gas industry on the same basis as other integrated energy companies. It is the largest Canadian-owned oil and gas company, with assets of almost $7 billion and revenue of $5 billion in 1989.

Petro-Canada has 6 468 employees, organized into two operating divisions along with a small corporate staff. Petro-Canada Resources, the "upstream" business, explores for, produces and markets crude oil, natural gas and natural gas liquids. The "downstream" business, Petro-Canada Products, refines crude oil, distributes and markets petroleum products and offers customers related goods and services.

The Honourable
Jake Epp, P.C., M.P.
Minister
Energy, Mines and
Resources Canada
House of Commons
Ottawa, Ontario

Dear Minister:

On behalf of the Board of Directors, I am pleased to present Petro-Canada's Annual Report for the fiscal year ended December 31, 1989.

In accordance with the provisions of the Financial Administration Act, the Report includes the consolidated financial statements together with the auditors' report thereon.

Yours sincerely,

W.H. Hopper
Chairman of the Board
and Chief Executive Officer

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This Annual Report constitutes management's discussion and analysis of Petro-Canada's financial condition and results of operations. It includes a detailed review of the far-reaching changes the Corporation is making to improve its competitive position. This year's graphic approach deliberately emphasizes the accountability for, and the expectations arising from, the initiatives that are underway.

Shares of Petro-Canada will be offered to the Canadian public

On February 20, 1990, the Minister of Finance, the Honourable Michael Wilson, indicated in his budget speech that the Government of Canada would proceed with the privatization of Petro-Canada.

On the following day, the Honourable John McDermid, Minister of State for Privatization, announced in the House of Commons that, once necessary legislative and regulatory steps have been taken, the Board of Directors of Petro-Canada will be asked initially to offer a treasury issue of about 15 per cent of the Company.

Other details of the announcement were as follows:

- Legislation will allow for the sale of all Petro-Canada shares. They will be offered in a manner that ensures broad participation in the ownership of the Company.

- The Board of Directors of Petro-Canada will develop an employee share ownership program as part of the initial offering.

- Individual ownership will be limited to 10 per cent and foreign ownership to 25 per cent of the publicly held shares of Petro-Canada.

- The Minister of State for Privatization will retain the Government's holdings and manage them as an investment. The Government's overriding principle will be that Petro-Canada operate as a private-sector company with an arms-length relationship with the Government.

- Petro-Canada's headquarters will remain in Calgary. The Company will continue to adhere to the Employment Equity Act and existing internal policies governing salaries, pensions, benefits, official languages and relationships with the unionized workforce.

Highlights

Financial	1989	1988
Net earnings (loss) after extraordinary item and dividends on redeemable preferred shares (millions of dollars)	**31**	(43)
Working capital provided from operations (millions of dollars)	**569**	624
Expenditures on property, plant and equipment and exploration (millions of dollars)	**567**	799
Cash flow return on capital employed (per cent)	**11.0**	11.7
Return on capital employed (per cent)	**3.2**	1.1
Return on equity (per cent)	**3.1**	(0.8)
Average capital employed (millions of dollars)	**5 965**	5 969
Shareholder's equity (millions of dollars)	**2 758**	2 727

Operating	1989	1988
Crude oil and field natural gas liquids daily production, net before royalties (thousands of barrels)	**100**	105
Natural gas daily production, net before royalties (millions of cubic feet)	**571**	488
Crude oil processed per day (thousands of cubic metres)	**46.5**	48.5
Petroleum products sales per day (thousands of cubic metres)	**44.4**	43.8

Units of measurement

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 barrel	=	0.159 cubic metre	1 cubic metre	=	6.29 barrels
1 cubic foot (natural gas)	=	0.028 cubic metre	1 cubic metre (natural gas)	=	35.31 cubic feet
1 imperial gallon	=	4.55 litres	1 litre	=	0.22 imperial gallon
1 acre	=	0.405 hectare	1 hectare	=	2.47 acres
1 ton (long)	=	1.016 tonnes	1 tonne	=	0.984 ton (long)
1 mile	=	1.609 kilometres	1 kilometre	=	0.62 mile

This was a year of change for Petro-Canada. We have taken decisive steps, moving the Corporation onto a new path that will raise financial performance over time to the level of industry leaders.

Chairman and Chief Executive Officer
Bill Hopper

Petro-Canada did not do well financially in 1989, even though earnings were up. Net earnings were $31 million, after an extraordinary charge of $54 million; this was $74 million above the previous year's loss of $43 million. Working capital provided from operations of $569 million was down 9 per cent from 1988. Crude oil production slipped in 1989 although, in contrast, natural gas volumes hit a new high, increasing by 17 per cent. Sales of refined petroleum products were up slightly compared to a year earlier.

During 1989, the Corporation changed from the full cost to the successful efforts method of accounting for upstream operations. Successful efforts is a more conservative accounting approach, which we believe more appropriately reflects the maturity of Petro-Canada's upstream operations. Comparing Petro-Canada's financial statements to those of major competitors is now easier.

It is five years since the federal energy minister instructed Petro-Canada to operate in a private-sector fashion. Accordingly, the Corporation ceased its policy-driven activities and only followed commercial objectives and strategies. These were oriented in part to realizing the potential of several frontier and oil sands interests, the results of successful investments during earlier years. While these interests provide Petro-Canada with excellent prospects for earnings and growth, they also weight the Corporation's asset portfolio disproportionately toward the long term without contributing immediate cash flow or earnings. Since the mid 1980s, low and uncertain oil prices have reduced upstream cash flow and delayed major project construction. Combined with lower than anticipated downstream returns, these factors have left Petro-Canada with a short- to medium-term performance gap that management has deemed unacceptable.

Consequently, a major overhaul of Petro-Canada is underway. Although operating strategies remain broadly consistent, we are radically altering the Corporation's cost structure, asset balance, operating practices and organization. The objective is to build a profitable bridge to the future, since we recognize that business conditions are likely to remain far different from the more buoyant ones under which past investments were made.

This report begins with a discussion in the Feature Article of Petro-Canada's strategic response to a range of external and internal business challenges. It points out that while Petro-Canada's challenges are not unique, they are more acute than those facing its major competitors. The divisional reports and the Financial Review cover specific actions undertaken or planned and their implications. These include reducing costs, tightening capital spending criteria, selling assets, and pursuing appropriate new business opportunities within the petroleum sector.

The far-reaching changes to the Corporation and its operations resulted in an extraordinary 1989 charge of $54 million after tax. Implementation of the various change programs will continue throughout much of 1990. It is anticipated that the benefits from these programs will begin to influence key financial indicators by year-end 1990.

We will be judged by our performance

A significant achievement in 1989 was the reduction in overhead; additional cost control efforts are continuing in 1990. The total staff complement was reduced by 905 to 6 468 at year-end 1989, far below the high for the Corporation of 9 747 in 1985. Much of our organization has been re-aligned to enhance its ability to operate the restructured businesses. New organizational groupings have been established to develop, implement and be accountable for business strategies in specific areas.

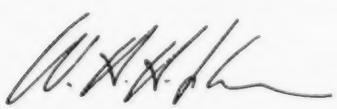
In diversifying its asset base, the Corporation pursued initiatives that were attractive for their strategic fit. Most prominent were the recent agreements to acquire the ICG propane business and build an MTBE manufacturing facility.

Many of Petro-Canada's existing strategies were refocused during 1989 to support the Corporation's drive for higher profitability and growth. In the upstream, we are striving to expand the natural gas business, optimize Western Canada oil operations, and add crude oil reserves and production from new sources in the Canadian frontiers and internationally. In the downstream, more is being done to focus operations on the customer, improve revenue generation from existing assets, increase the efficiency of refineries and build a stronger lubricants business.

Petro-Canada endeavours to manage its financial affairs conservatively. We welcome the February 1990 announcement by the Government of Canada to offer the shares of Petro-Canada to the Canadian public. Preparations are underway within the Corporation to launch the initial offering. This new equity will give Petro-Canada additional financial strength and the flexibility to finance its growth, particularly in energy development projects, without an imprudent increase in debt.

I am certain that 1990 will be a turning point in the Corporation's history. By the early 1990s, Petro-Canada's financial results will reveal the full benefits of the developments that have been initiated.

During the past year, changes in personnel and reporting relationships left many people in Petro-Canada with extra workloads. Others left the Company as a result of downsizing efforts. We recognize the contributions that all have made. We are also gratified that the Minister of State for Privatization, in his February 21 speech to the House of Commons, acknowledged the valuable role of employees in the unfolding of Petro-Canada's bright future.

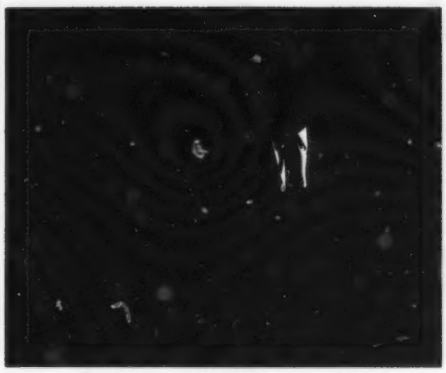


W.H. Hopper
Chairman of the Board
and Chief Executive Officer

March 23, 1990

Making a new path for the 1990s

Over the last 16 years, oil and gas companies in Canada have seen unparalleled change in factors affecting their operations. Petro-Canada has weathered more change than most, and has lagged its competitors in financial performance.



President and Chief Operating Officer
Ed Lakusta

The challenge it is now assuming is to become an industry leader in the 1990s.

This article discusses the changes that have influenced the petroleum industry in Canada and Petro-Canada's response to these new conditions.

Oil and gas prices have been unpredictable

Perhaps the most important single factor underlying the current restructuring of the oil and gas industry is the price of oil. The fluctuations over the last 16 years would be hard to match in any other Canadian industry dependent on one commodity and its price performance.

After being low and reasonably stable for years, oil prices rose so rapidly in the 1970s that it was widely believed they would continue to increase indefinitely. This was not to be the case. Most observers now believe the industry faces a new business reality, with oil prices continuing to fluctuate over the long term.

Developments in the price of natural gas have been similar. Gas prices have eroded considerably in recent years, to the point where they are well below replacement costs from exploration.

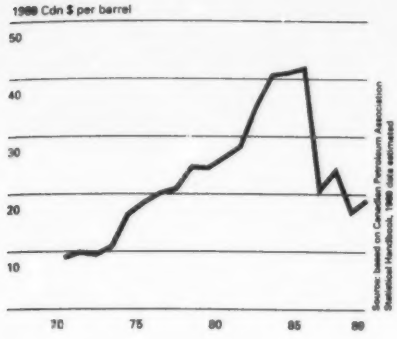
Lower gas prices have been caused by the decline in crude prices and the deregulation of the North American natural gas industry at a time of surplus supplies. However, the price outlook for gas is brighter than for oil. Prices are expected to rise as excess supplies are absorbed and as demand increases. Gas is also viewed as an environmentally superior fuel to oil. Nonetheless, it will be some time before natural gas prices approach the levels of the early 1980s.

Energy policy has shifted markedly

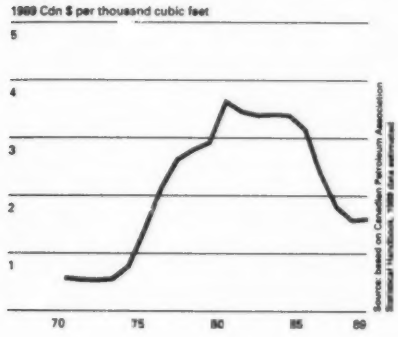
There have been dramatic changes in Canadian energy policy as well. Prior to the mid 1980s, the Canadian energy industry was highly regulated. "Made in Canada" oil and natural gas prices were determined by negotiations between the federal government and the producing provinces. The National Energy Program of 1980 imposed additional taxes and levies, encouraged exploration in areas which would otherwise have been uneconomic, and stringently controlled exports.

In the mid 1980s, the signing of the Western Accord and the Natural Gas Pricing and Marketing Agreement began a new trend of deregulation that has been welcomed by the industry. Oil and natural gas prices in Canada are now largely driven by supply and demand. Increasingly, the location of exploration activity and selection of markets is determined by private-sector economics. The 1989 Free Trade Agreement reinforces these developments.

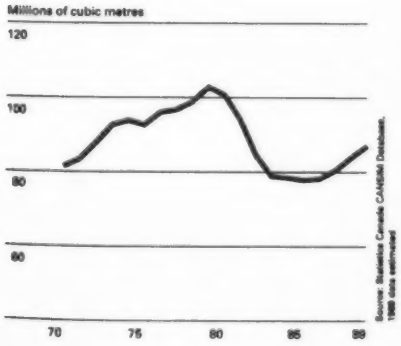
Canadian crude oil price
(Average wellhead price)



Canadian natural gas price
(Average plant gate)



Canadian refined petroleum products sales



Supply and demand movements have reshaped industry

There is an increasing consensus that the Western Canada Sedimentary Basin has matured as a source for conventional light crude. Many producing fields are in decline and new fields are expected to be smaller and involve higher finding costs. Operating costs are rising because of the growing need to apply expensive recovery schemes to depleting reservoirs. As a result of these factors, Western Canadian conventional light crudes are satisfying a decreasing portion of Canadian demand.

In the downstream, the Canadian demand for refined petroleum products shrank by about 24 per cent between 1979 and 1985, and still remains about 16 per cent below the peak level of the late 1970s. There have also been significant changes in the demand mix in favour of lighter, higher octane and cleaner products.

Demand shifts have resulted in surplus and inappropriate refining capacity, forcing refiners to rebalance their crude slates and reconfigure their refineries. In addition, marketers have had to rationalize older, established retail and wholesale networks and update facilities and products. The growth of regional independent marketers has intensified competition. This situation has depressed downstream returns throughout much of the 1980s.

The environment is a critical challenge

Growing public and government concern has produced exceptionally rapid growth in the priority given to environmental protection. In the early years of the decade, environmental regulation focused around new project approval in the upstream. More recently the context has become broader and the entire industry has come under scrutiny. Attention has been directed with particular intensity to refinery effluents, tank leakages, and carbon dioxide and lead emissions.

The economic impact of recent trends is that the cost of remaining in business is growing as environmentally related capital expenditures become increasingly significant. These expenditures could reduce profits in the medium term but will provide competitive advantage to those companies that have paid ongoing attention to environmental concerns and can respond quickly and effectively to the challenge.

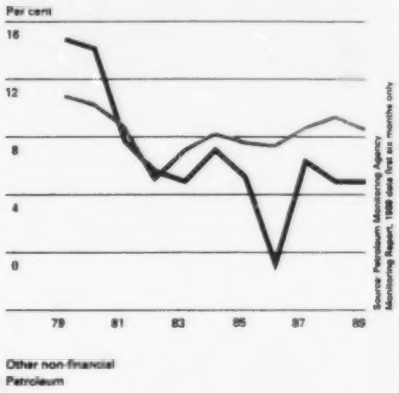
Industry performance has been discouraging

The Canadian oil and gas industry has been hurt by the many changes it has faced. While the petroleum industry in Canada typically earned higher returns than other non-financial industries in the 1970s, the reverse has been true since the early 1980s.

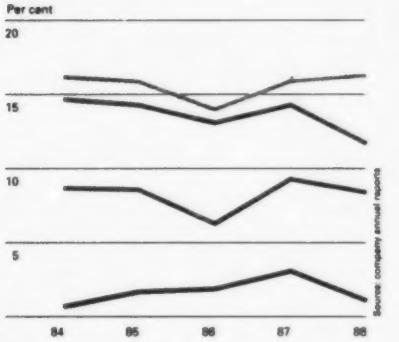
Petro-Canada's results have been unsatisfactory

Petro-Canada has had to deal with the same, changing business conditions that have confronted the industry as a whole. However, two unique circumstances have also influenced the Corporation's financial performance. Until 1984, Petro-Canada

Return on capital employed — petroleum versus other non-financial industries



Return on capital employed and cash flow return on capital employed — Petro-Canada versus its major competitors*



*Average of national integrated competitors
All data reflect successfull efforts accounting

operated under a mandate that combined commercial goals with public policy objectives of the federal government. The Company's focus was on making a contribution to national energy policy objectives, such as security of supply, rather than on profitability. Although Petro-Canada has operated as a commercial entity in recent years, the legacy of the earlier mandate continued to be reflected in the Corporation's financial performance indicators.

Petro-Canada is also unique because it grew rapidly through acquisitions in both the upstream and downstream segments of the industry, and in an era of high energy prices and industry optimism. Such growth led to a high-cost asset base relative to its major competitors, and considerable effort and expense integrating the operations, systems and cultures of the various predecessor companies.

As a result of these factors, Petro-Canada has not performed well relative to its competitors. In the last several years, earnings have been squeezed by declining revenues and rising operating and overhead costs.

Petro-Canada's response is far reaching

Petro-Canada recognizes that, to be a leader in the Canadian oil and gas industry, it has to gain control of its future. The Corporation must position itself to withstand sustained periods of low crude prices and take advantage of opportunities in more buoyant periods.

A new vision

Petro-Canada began preparations for the 1990s with the development of a new vision which sets the fundamental objectives for the Corporation. The emphasis is clearly on profitability and future growth, that is, the creation of shareholder value.

Recognizing that a "business as usual" operating mode could not lead to progress toward the vision, management initiated a number of important change programs in 1989.

Strategies have been adjusted

Petro-Canada began, and largely completed, comprehensive strategic reviews of its entire upstream and downstream businesses. The reviews involved the reconfirmation or adaptation of earlier strategies to recognize changed business conditions and support the vision. These strategies are discussed in detail in the Products and Resources chapters of this report. Concepts underlying this rethinking included a reduced reliance on upswings in crude prices to produce healthy returns and more concentrated core operations in areas of sustainable competitive advantage.

Asset rationalization has begun

Both strategic reviews have emphasized the identification of underperforming and low-potential assets so that the Corporation can rationalize its asset base. Significant divestitures are planned over the next several years, with over half from the upstream. Close to $120 million of sales have already been concluded.

The Vision

"As Canada's petroleum energy company, Petro-Canada is a dynamic and profitable leader, diversified in those elements of the integrated petroleum industry which have high potential for profitability and future growth. We are a unique Canadian corporation and are commercially responsive to the expectations of Canadians for leadership in products, services and standards of operations. We operate internationally to enhance the value of the Corporation."

Asset divestitures will lead to a short-term loss of associated margins. However, the long-term benefits will be the correction of underperformance problems and more focused operations. Improved competitive position and enhanced financial performance will follow.

Diversification is underway

Diversification is an increasingly important element of overall corporate strategy at Petro-Canada. Until recently, the Corporation operated primarily in the traditional components of the petroleum "value chain": oil and gas exploration and production, and oil refining and marketing. Participation in other components can contribute to higher profitability and growth through synergies with existing businesses and reduced exposure to business risks associated with oil prices. The Corporation is examining opportunities in several attractive subsectors of the petroleum industry. The recent agreements to acquire the ICG propane business and construct an MTBE plant, described elsewhere in this report, are examples of how Petro-Canada is approaching diversification.

Cost reduction has been dramatic

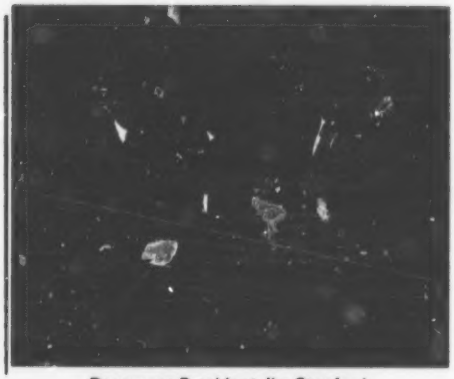
The Corporation has developed more cost-effective ways of managing existing businesses and support services. Changes include eliminating non-essential work and duplication, reducing organizational layers, broadening spans of control, streamlining management processes and decentralizing support services. With a 12 per cent reduction in staff, major realignments are underway in all parts of the organization and most are nearing completion.

Administrative and operating costs will be down $170 million in 1990, or about 9 per cent, from the levels that would have been reached in the absence of these changes. Additional cost reductions are planned in the future. The conversion to the successful efforts method of accounting in 1989 has assisted in sharpening exploration expenditure decisions by emphasizing their immediate effect on "bottom line" results.

Performance must improve

Petro-Canada's response to today's business context is comprehensive and ambitious. It needs to be in order to realize the Corporation's target of becoming a leading national competitor in the Canadian petroleum industry by 1994 or earlier. With the strategies and change programs in place at the end of 1989, Petro-Canada considers this target challenging, yet realistic.

The Resources division's 1989 results were low, but significantly better than in 1988. Earnings of $80 million were up from a loss of $89 million, while working capital provided from operations was unchanged at $379 million. The cash flow return on capital employed was 13.7 per cent and the return on capital employed was 3.1 per cent. Continued improvements are expected as a result of change programs initiated over the past year.



Resources President Jim Stanford (centre) with (left to right) Senior Vice-Presidents Jim Pantelidis (Resource Development and Production) and Peter Kaye (Exploration)

The 1989 earnings improvement came from several factors. Higher crude prices, partially offset by lower production volumes, contributed $92 million to revenues. Prices, based on the West Texas Intermediate benchmark crude, averaged U.S. $19.45 per barrel, $3.49 higher than in 1988. Production of crude oil and natural gas liquids declined 4.6 per cent to 100 400 barrels per day. Near record production was reached at the Syncrude oil sands facility.

Natural gas production reached an all-time high at 571 million cubic feet per day, up 17 per cent over the previous year. Lower natural gas prices limited the net benefit to $19 million. A three cent increase in the value of the Canadian over the U.S. dollar reduced revenues by $22 million. Gains on asset sales, countered by increased expenses, contributed $14 million to earnings. The remaining increase in pretax earnings of $155 million came from lower exploration expense and reduced depreciation, depletion and amortization charges. In 1988, carrying values of certain oil and gas assets were written down to fair market value under

Financial	**1989**	1988
Revenue (millions of dollars)	**1 142**	989
Earnings (loss) (millions of dollars)	**80**	(89)
Working capital provided from operations (millions of dollars)	**379**	379
Expenditures on property, plant and equipment and exploration (millions of dollars)	**334**	611
Average capital employed (millions of dollars)	**2 601**	2 610
Cash flow return on capital employed (per cent)	**13.7**	14.4
Return on capital employed (per cent)	**3.1**	(3.4)

Operating	**1989**	1988
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)		
Conventional crude oil and field natural gas liquids	**75**	79
Synthetic crude oil	**25**	26
Total	**100**	105
Natural gas production, net before royalties (millions of cubic feet per day)	**571**	488
Proved reserves of crude oil and natural gas liquids, net before royalties (millions of barrels)	**527**	582
Proved reserves of natural gas, net before royalties (billions of cubic feet)	**3 340**	3 474

Repositioning for higher profitability

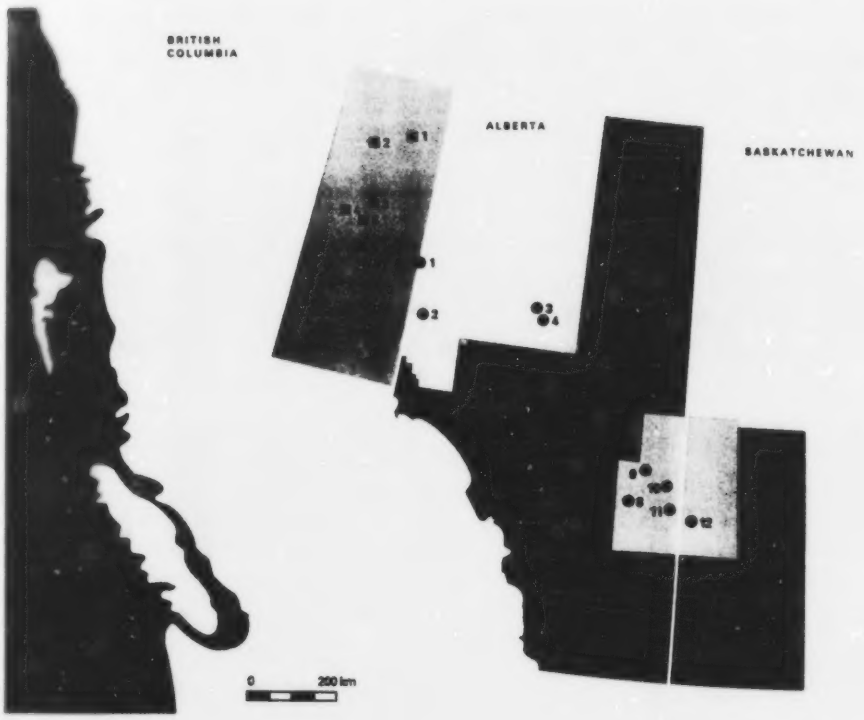
Resources profile

On a typical day, Petro-Canada produces approximately 100 000 barrels of crude oil and field natural gas liquids, and 571 million cubic feet of natural gas. The Corporation's straddle plants extract an additional 45 000 barrels of natural gas liquids, including ethane, from pipeline natural gas. Petro-Canada accounts for approximately 5 per cent of domestic oil and natural gas liquids production and close to 6 per cent of domestic natural gas production. The Corporation operates more than 70 oil and gas production facilities in Western Canada.

At year-end 1989, Petro-Canada had proved reserves of crude oil and field natural gas liquids of 527 million barrels before royalties. Proved reserves of natural gas amounted to 3.3 trillion cubic feet before royalties.

Petro-Canada also has significant probable and potential reserves off Canada's East Coast and in the oil sands areas of Alberta.

The Corporation holds interests in 11 crude oil, natural gas liquids and refined products pipelines.



Western Canada value centres

Value centres	● Main oil reserves and production locations	■ Main natural gas reserves and production locations
British Columbia	1 Boundary Lake	1 Yoyo
Northern Alberta	2 Valhalla	2 Clarke Lake
Whitecourt	3 Utikuma	3 Laprise
West Pembina/ Alberta Foothills	4 Nipisi	4 Grassy
Conventional heavy oil	5 Swan Hills	5 Jedney
Eastern Alberta/ Saskatchewan	6 Brazeau	6 Kobes Creek
	7 Pembina	7 Kaybob South
	8 Bellshill Lake	8 Windfall
	9 Kinsella	9 Whitecourt
	10 Wainwright	10 Hanlan
	11 Provost	11 Brazeau
	12 Cactus Lake	12 Gilby
		13 Cow Lake
		14 Ricinus
		15 Alderson
		16 Medicine Hat
		17 Hatton

Business conditions

Crude oil prices
- November 1989 OPEC accord increased daily production target to 22.1 million barrels
- January 1990 actual production dropped to within 1 million barrels of the target
- January prices rose to U.S. $23.70(WTI), up $4.45 since the accord
- Petro-Canada expects continuing volatility with prices in 1990 averaging near 1989 levels

Natural gas prices
- average B.C. plant gate prices were much weaker than in 1988, averaging $1.36 per thousand cubic feet over the year and slipping to $1.28 by year end
- average Alberta plant gate prices, $1.61 per thousand cubic feet, were slightly below very low 1988 levels; the last quarter 1989 price recovered to $1.70
- export demand will grow, but the timing of price increases remains uncertain

Canadian/U.S. dollar exchange rates
- 1989 exchange rates averaged U.S. 84 cents, compared to 81 cents in 1988 and 75 cents in 1987
- early 1990 rates reached U.S. 87 cents, then dropped to 83 cents in February
- rates will continue to be effected by fiscal and monetary policy and international financial markets

the application of the ceiling test. In 1989, the influence of the ceiling test was less significant. The above factors generated an overall increase in pretax earnings of $258 million. After providing for associated income taxes, the increase in net earnings was $169 million.

Proved reserves of natural gas slipped 4 per cent from 1988 to 3.3 trillion cubic feet and proved reserves of crude oil and natural gas liquids declined 9 per cent to 527 million barrels. Part of this decline was attributed to the reclassification of reserves associated with the Wolf Lake in situ project as well as the impact of the asset disposition program. Some encouraging discoveries were made in natural gas. However, prospects for sizeable oil exploration successes in Western Canada are dwindling and production is declining rapidly at many conventional oilfields.

Comprehensive changes were begun in 1989 to improve immediate financial results and medium-term prospects for the upstream business. The division altered its organization, particularly with respect to conventional operations in Western Canada, and initiated a process to improve the quality of its asset base.

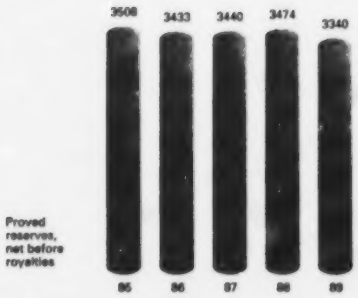
Changed approach to business

To respond to the higher finding and operating costs that result from the maturity of the Western Canada Sedimentary Basin, the division has developed a new operating framework. Future success will depend on increasing the efficiency of existing operations, while focusing new exploration and development capital on the most promising opportunities. To this end, the division has divided its Western Canada asset base into value centres. Properties that are not of strategic significance are candidates for divestiture and potential acquisition opportunities are being studied.

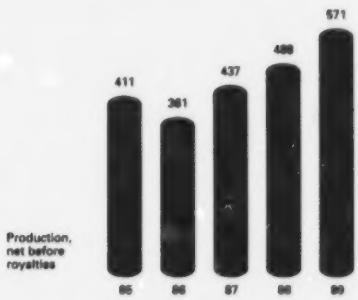
The restructuring encourages a "small business" operating style with closer integration of exploration, development, production and marketing skills, and control of overhead costs and support functions. The organization is designed to ensure that every employee has a more direct involvement in creating shareholder value. Petro-Canada believes the value centres will establish the foundation for future growth and form a key element in improving performance from the existing asset base.

Consistent with the new operating framework, the division has assigned selected senior explorationists to three stratigraphic exploration groups. The aim of these specialized groups is to establish exploration plays that can contribute profitably to an existing or new value centre.

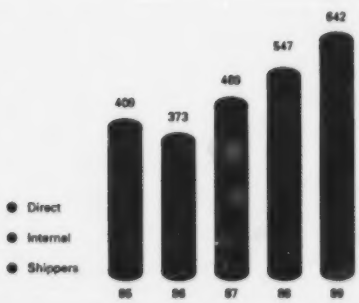
A program carefully designed to encourage continuous improvement in business performance was begun in 1989, and will be enhanced by the value centre organization. Already, individual employees are improving operating results through hundreds of small-scale changes, in areas from electrical power and chemical costs to compressor operating efficiency.



Natural gas reserves
(billions of cubic feet)



Natural gas production
(millions of cubic feet per day)



Natural gas sales
(millions of cubic feet per day)

Focusing the asset portfolio

Petro-Canada is reducing its upstream asset portfolio to improve financial performance under current and anticipated business conditions. Having built up an excellent position in the country's longer-term frontier and oil sands resources in its early years, Petro-Canada now has a large proportion of its upstream assets concentrated in high-cost sources of future supply. By the early 1990s, careful and selective programs of divestitures, swaps and acquisitions will lead to a more appropriate mix of short- and long-term sources of cash flow.

The division is also concentrating ownership in fewer oil and gas properties in order to take advantage of operator or leading partner status. This positioning allows Petro-Canada to reduce administrative costs and be more effective in a deregulated business.

Resources division asset divestitures reached $97 million in 1989. Approximately $85 million of these proceeds came from the sale of working interests in conventional Western Canadian producing properties that are, for the most part, operated by partners. By year end, Petro-Canada had sold its working interests in 19 properties in Alberta and Saskatchewan, most of them related to oil, its interests in the small Cohasset and Panuke oilfields off the coast of Nova Scotia, and its seismic vessel, the Bernier.

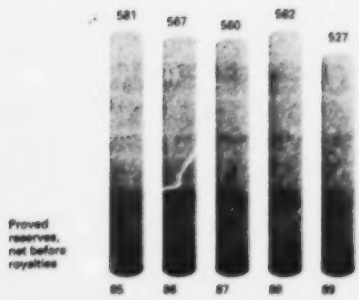
Asset restructuring in 1989 also took the form of swaps and selective acquisitions. In mid year, Petro-Canada concluded a swap with a partner involving minor working interests in a total of 34 Western Canada properties. Assets acquired during the year included additional working interests in the Clarke Lake gasfield in northeastern British Columbia and in the Casablanca oilfield offshore Spain. At Clarke Lake, the $15 million acquisition of 32 billion cubic feet of proved reserves enabled Petro-Canada to increase ownership of this strategically important field.

Gaining strength in natural gas

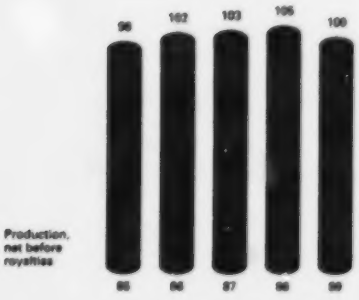
Petro-Canada's natural gas strategy is based on the assumption that U.S. reserves will be insufficient to meet that country's growing gas requirements, and that demand will increase as the environmental advantages of gas become more important. Consequently, the anticipated rise in demand and prices for Canadian gas make investments in reserve additions, transportation and marketing attractive.

In 1989, natural gas exploration accounted for 76 per cent of total capital spending on Western Canada exploration. This percentage is expected to increase in 1990. During the year, exploration and development in Western Canada added 29 billion cubic feet to the Corporation's proved natural gas reserves.

It was an exceptional year for natural gas marketing. Total sales reached a record level of 642 million cubic feet per day, up 17 per cent from 1988. This amount comprised shipper sales, and direct sales to internal and external end users. Sales rose in all three categories. Volumes sold directly to end users climbed 59 per cent over 1988, to 110 million cubic feet per day. Customers included major gas distributors in Eastern Canada and the U.S. Northwest, Eastern Canada residential and commercial markets and Alberta and B.C. industrial consumers.



Crude oil and natural gas liquids reserves
(millions of barrels)



Crude oil and field natural gas liquids production
(thousands of barrels per day)

During the year, Petro-Canada pursued an attractive opportunity to deliver its natural gas to southern California markets. The Corporation is a 16.7 per cent participant in the Altamont Gas Transportation Project, which proposes to construct in the mid 1990s a 30-inch, 700 million cubic feet per day pipeline from Wild Horse, Alberta, to Opal, Wyoming. Project sponsors estimate the total cost of the 620-mile pipeline to be U.S. $580 million. At year end, participants were awaiting key decisions from California regulators and had completed and filed an environmental report with U.S. federal regulators. In February 1990, Petro-Canada concluded a transportation agreement for 120 million cubic feet per day with Kern River Gas Transmission Company. Gas from British Columbia will be transported through Northwest Pipeline Corporation into the Kern River pipeline.

Expansion of the Petro-Canada-operated Brazeau sour gas plant in west-central Alberta was completed in December, on schedule and under budget, at a cost to the Corporation of $21 million. Petro-Canada's interest in the expanded plant is 36 per cent. The expansion has significantly boosted plant production of natural gas liquids and sulphur.

Optimizing Western Canada conventional oil operations

Work was completed on the third phase of an infill drilling program at the Petro-Canada-operated Valhalla oilfield in northwestern Alberta. During 1989, the addition of nine producing and three injection wells increased production by 1 000 barrels per day.

A major infill drilling project was completed early in the year at the Petro-Canada-operated Provost conventional heavy oilfield in east-central Alberta. With an additional 30 wells in operation, production climbed from 800 to 2 500 barrels per day.

During the year, the Resources division began a five-year program to systematically review all non-producing wells in Western Canada. Some of these wells will be returned to production, while others will be abandoned. Coordination with regulatory bodies will ensure that the Corporation's techniques for abandonment and suspension meet new industry standards.

Developing sources of crude oil for the future

Petro-Canada continued in 1989 its quest for new sources of crude oil from the East Coast offshore, the Alberta oil sands and from international operations.

The Corporation's work on the Terra Nova offshore oilfield has been encouraging. Recent geological mapping and analysis of well test data led to a revision of the probable reserves estimate for the field from 132 to 300 million barrels. The Corporation is the operator and currently holds a 44 per cent interest in the Terra Nova consortium. At year end, Petro-Canada and its partners were finalizing reviews of reserves and production facility systems prior to deciding upon the

submission of a development application. The project, envisioned to cost in excess of $2 billion before production commences, is expected to produce 75 000 barrels per day. Under favourable circumstances, construction could begin prior to the mid 1990s.

The Hibernia consortium, of which Petro-Canada is a 25 per cent participant, undertook further pre-development engineering for the 110 000 barrels per day project. The consortium re-examined the design of the topside production facilities, lowering pre-production cost estimates to $5.1 billion. Fiscal negotiations continued between the consortium and the federal and provincial governments. It is anticipated that all agreements will be signed by the middle of 1990, with detailed engineering and construction to follow thereafter.

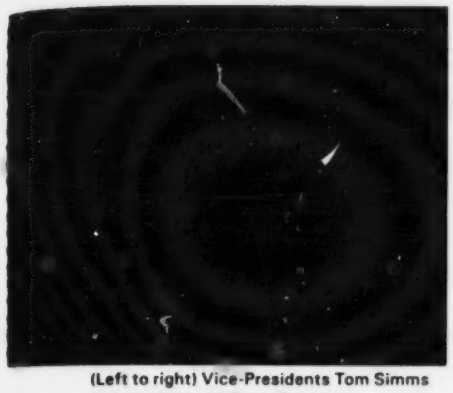
In February 1990, the federal government announced its intention to withdraw financial support for the OSLO oil sands mining project, in which Petro-Canada holds a 15 per cent interest. The proposed $4.2-billion project would produce 77 000 barrels per day of synthetic crude oil. Work on preliminary engineering design and cost estimates will be finished by July 1991. At that time, a decision will be made on whether to proceed with detailed engineering and construction.

During 1989, the Syncrude oil sands project completed its first year of operations following the commissioning of additional capacity. Production was 148 000 barrels per day, of which Petro-Canada's share was 17 per cent. A fire in December reduced total plant output to 116 000 barrels per day for the month and held annual production slightly below last year's record. Full production of 165 000 barrels per day should resume by the end of the first quarter, 1990.

At the Wolf Lake in situ project an expansion was completed during 1989. However, the additional capacity was not brought on stream because of weak bitumen prices and the announced intention by the operator to sell its 50 per cent interest.

Petro-Canada increased the scale of its international exploration program in 1989 to pursue significant, though higher-risk, opportunities for large oil discoveries with relatively low finding and production costs. Fourteen per cent of its upstream capital expenditures supported exploration initiatives in South America, South East Asia and the Middle East. Petro-Canada reported oil discoveries at two wells in the Middle Magdalena Valley in Colombia, and in the Oriente region of Ecuador. One of the Colombian discoveries, in which Petro-Canada has a 50 per cent interest, is considered significant enough to merit immediate development. At the close of 1989, Petro-Canada added 1.7 million barrels of proved and 7.3 million barrels of probable oil reserves as a result of the Colombia and Ecuador successes and the increased working interest in the Casablanca field in Spain.

Petro-Canada pursued two major diversification initiatives in 1989: an agreement to acquire the retail propane business of Inter-City Gas Corporation and a decision to build a plant to make MTBE, an octane-boosting gasoline component.



(Left to right) Vice-Presidents Tom Simms (Integration) and Brant Sangster (Corporate Development)

Both projects will extend Petro-Canada's base businesses into related areas where the Corporation has not been well represented. In both cases, anticipated rates of return will raise overall profitability levels. The two projects will help stabilize Petro-Canada's earnings because their profitability will be affected by different factors than those influencing core operations.

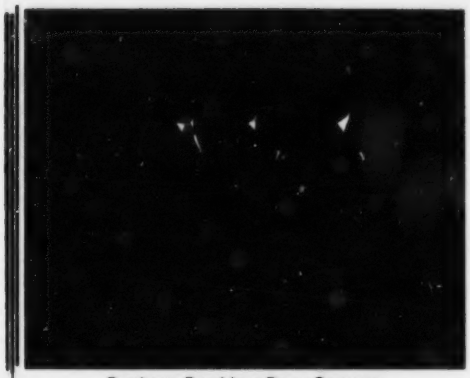
The Corporation is in the process of acquiring the retail propane business of Inter-City Gas Corporation. The purchase, which was negotiated in 1989 at a price of $265 million plus an earnings adjustment, is expected to be concluded near the end of the first quarter of 1990.

Petro-Canada will operate the new business as ICG Propane Inc., a wholly owned subsidiary of Petro-Canada Inc. To take advantage of its established value, the ICG brand and logo will be retained. The principal benefit of the acquisition will be a balanced presence in all segments of the propane business.

Petro-Canada has a 50 per cent initial interest in the construction of Canada's first MTBE plant. Methyl tertiary butyl ether (MTBE) is a high-value product that can be blended into gasoline to boost octane without the detrimental effects of lead. The Corporation's joint venture partner is Neste Oy, the Finnish state oil company. The facility, with an estimated total construction cost of $350 million, will be located in Edmonton, Alberta, close to sources of the two major raw materials, butane and methanol. In addition to supplying the plant with butane, Petro-Canada can market up to half of the production. Following regulatory approvals, project construction will begin in the spring of 1990.

To Petro-Canada, the project is an attractive diversification opportunity for several reasons. The profitability of an MTBE venture will be less subject to the crude oil price swings that affect the Corporation's base businesses. Due to the ongoing weakness of the wholesale butane market, the project will help Petro-Canada earn greater value from its substantial butane production. Furthermore, the MTBE proposal addresses the powerful call for environmentally friendly fuels. Under the U.S./Canada Free Trade Agreement, there is growing export potential for MTBE, particularly in U.S. states that have strict environmental controls.

Results for the Products division in 1989 were below expectations. Earnings were essentially level at $104 million, producing a return on capital employed of 3.9 per cent. Cash flow return on capital employed was 8.8 per cent. During the year, management began to implement far-reaching programs aimed at performance improvements.



Products President Barry Stewart (front) with Senior Vice-Presidents (left to right) Ford Ralph (Central Region), Gaston Beauregard (Eastern Region) and Norm McIntyre (Western Region)

Total revenue of $4 442 million increased $197 million, or 4.6 per cent, from the previous year. Of this increase, $135 million was attributable to petroleum product revenues. Sales volumes, which were just over 1 per cent higher than 1988, were combined with price increases of 2 per cent. The remaining $62 million was primarily due to an increase in non-petroleum revenue from car washes, Certigard, and tires, batteries and accessories.

Operating earnings were virtually unchanged at $339 million. Revenue increases were offset by crude costs that were up $135 million, or 6.5 per cent from the previous year, increased marketing expenses from the reidentification to "Maximum" products, and environmental expenses. Operating earnings per litre of sales remained virtually unchanged at 2.09 cents.

Working capital provided from operations decreased to $237 million from $299 million due mainly to higher current income taxes allocated to the division.

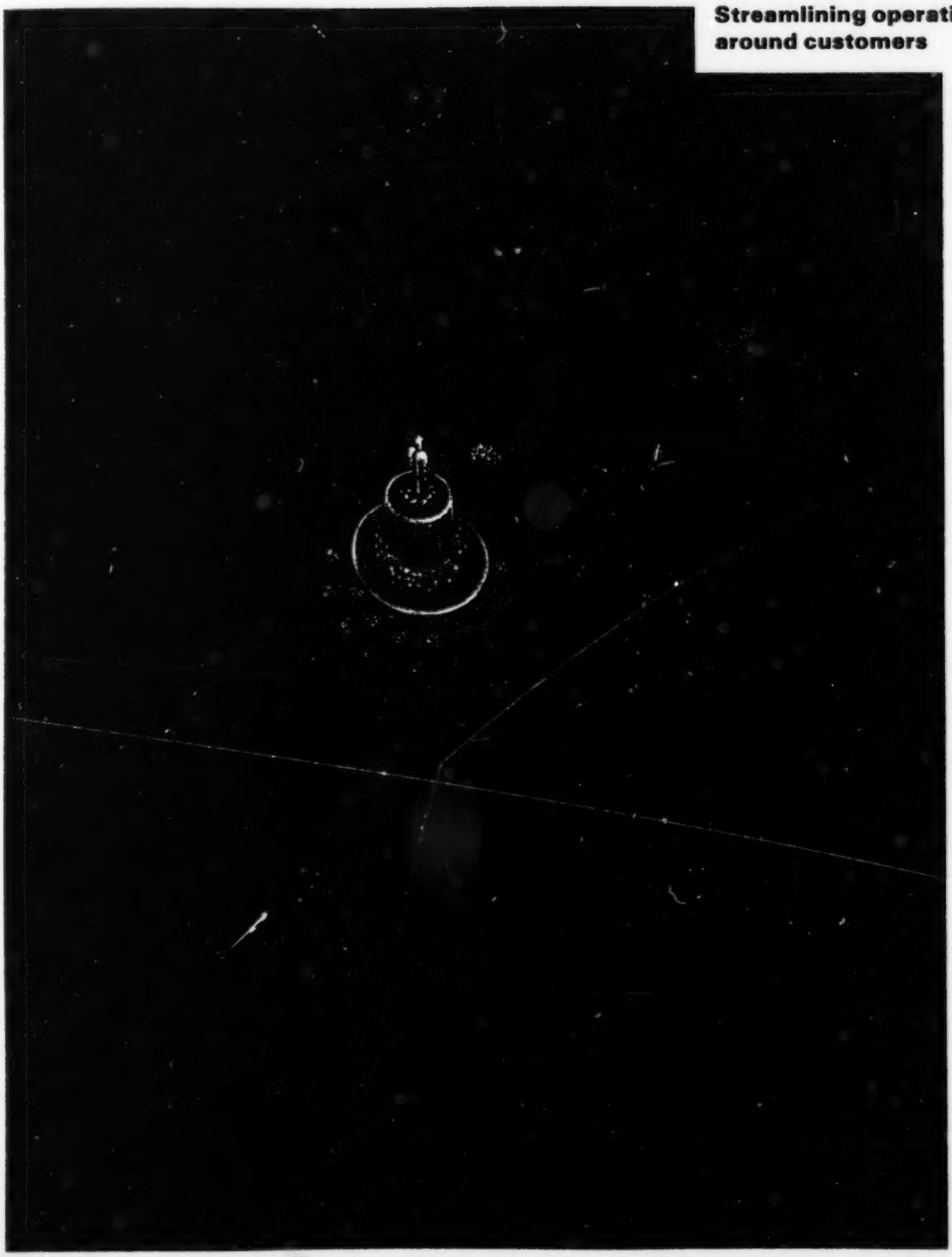
To some extent, the division's weak performance can be attributed to industry-wide business fundamentals that remain far from optimal. Industry product demand rose about 4 per cent over the year, but it did so amidst persistent competition. In addition, major environmental initiatives placed high demands on capital and operating expenses.

Not satisfied with the year's financial results, management has embarked on a radical reworking of the way the division does business. The objective is a marked improvement in profitability levels, regardless of industry trends.

Financial	**1989**	1988
Revenue (millions of dollars)	**4 442**	4 245
Earnings (millions of dollars)	**104**	102
Working capital provided from operations (millions of dollars)	**237**	299
Expenditures on property, plant and equipment (millions of dollars)	**208**	159
Average capital employed (millions of dollars)	**2 697**	2 700
Cash flow return on capital employed (per cent)	**8.8**	11.3
Return on capital employed (per cent)	**3.9**	3.8

Operating	**1989**	1988
Petroleum products sales (thousands of cubic metres per day)	**44.4**	43.8
Retail outlets at year end	**3 295**	3 429
Refinery crude capacity at year end (thousands of cubic metres per day)	**54.2**	60.6
Crude oil processed by Petro-Canada (thousands of cubic metres per day)	**46.5**	48.5
Average refinery utilization (per cent)	**86**	77

Streamlining operations around customers



Business conditions

Refined products outlook
- prices mainly influenced by crude costs, import prices for refined products and industry competition
- a downturn in the economy will likely slow growth in product demand

Competition
- a merger has reduced Petro-Canada's national, integrated competitors from three to two
- competition continues from regional refiner/marketers and independent retailers
- rising operating costs, increases in crude costs and pressure on prices are continuing to restrain margins

Refining
- surplus refinery capacity has been shrinking and efficiency improving due to rationalization, gradual increase in demand, environmental regulations and reconfigurations to meet new product requirements

Environment
- capital investments needed to meet environmental regulations are expected to increase

Products profile

Petro-Canada refines crude oil, markets a full range of petroleum products, including fuels and lubricants, and provides automotive maintenance products and services.

The Corporation sells over 44 million litres of refined products each day and holds approximately 19 per cent of Canada's retail gasoline market. Petro-Canada's countrywide retail network has 3 295 outlets. Industrial and commercial customers are served through 35 terminals and 372 bulk plants.

Petro-Canada operates four refineries, including a lubricants plant and a secondary processing facility, in Quebec, Ontario, Alberta and British Columbia. With about 18 per cent of total Canadian refining capacity, these facilities process up to 46 500 cubic metres of crude oil per day.

Reducing costs

A major operating cost reduction program was launched in 1989, and will be fully implemented in 1990. Savings will be achieved through lower marketing expenses, facility rationalization, decreased Company control of retail facilities and increased franchising. In addition, corporate-wide cost cuts and the decentralization of support services will give the division better control of overhead expenses. Beyond these measures, the planned restructuring of assets will result in a streamlined, lower-cost organization.

Restructuring assets

During 1989, the division launched a strategic review to examine the performance, contribution and potential of all downstream components. The review will also address efficiency questions that continue to arise in relation to the diverse assets acquired from four predecessor companies. Those parts of the business that do not support the drive toward improved profitability will be divested. The resulting asset base, focused on more closely integrated refining, marketing and supply strengths, will result in lower levels of capital employed. Implementation of recommendations will follow the scheduled completion of the review in early 1990.

Divestitures in 1989 amounted to $21 million, and included the Moose Jaw asphalt plant and the associated Stoney Beach pipeline.

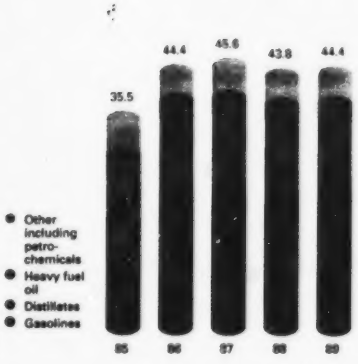
During 1989, Petro-Canada acquired a 49 per cent interest in Jiffy Lube Canada Inc., a chain of fast-lube franchises. The acquisition gave Petro-Canada an outlet for its lubricants and automotive accessories, and equity participation in the rapidly growing Canadian fast-lube market.

Reorganizing around the customer

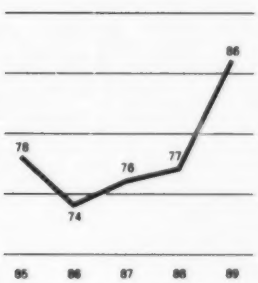
Underlying the division's improvement programs is the principle that profitability cannot be raised without satisfied customers. Early in the year, a task force completed its analysis of consumer reactions to Petro-Canada's products and services. It found there was a strong opportunity to gain more secure product demand by returning to the basics – understanding customers and providing for their needs.

A revised organizational structure and new operating philosophy have been developed and implemented. The division has been streamlined and decentralized, sharpening the focus on customers. Local managers now have greater accountability for profits and more control over their operations, such as in pricing and business development.

Petro-Canada has been actively developing business associates at the field level since 1988 through the wholesale marketer program. To compete more effectively, wholesale operations are being transformed into locally operated businesses. Associates are trained in key areas of management and given increased authority and support. The program combines the best elements of small business and national, integrated operations to improve profitability and enhance the value



Petroleum products sales
(thousands of cubic metres per day)



Average refinery utilization
(per cent)

of the Petro-Canada brand. The Corporation retains ownership of facilities and inventories, providing the consistency, quality and reputation of a national brand. Associates use their knowledge of local markets and the flexibility and speed of local control to respond to specific customer desires. Twenty-seven wholesale marketer businesses had been established by year end.

Increasing revenue from existing assets

During 1989, Petro-Canada continued with the rollout of its Certigard vehicle maintenance and repair program. By December, there were 129 Certigard franchises at key retail sites across the country. Automotive repair revenues were up about 20 per cent on average over pre-franchise sales levels, and a random survey indicated high customer loyalty and good prospects for return business. The Certigard program provides the Corporation with a strong position in a growing market segment.

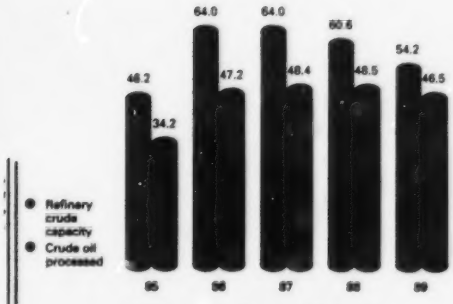
Petro-Canada continues to upgrade its tunnel car wash network, the largest in the country with about one-third of the nation's tunnel wash units and volume. With close to one-quarter of Canada's urban retail gasoline demand associated with car washes, the division's upgrading program is aimed at promoting higher gasoline sales and greater car wash revenue.

Refining more efficiently

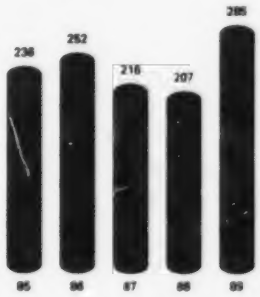
Refinery utilization increased from 77 to 86 per cent, the result of stronger product demand, the sale of the Moose Jaw asphalt plant and, most significantly, the integration of refinery operations. The integrated Port Moody and Edmonton facilities have operated smoothly for well over a year. The former Trafalgar and Clarkson refineries have been brought under single management, and renamed the Oakville and Mississauga plants of the Lake Ontario refinery. Unfinished streams are transferred for secondary processing in the more efficient units at each plant, allowing a secondary unit at Oakville to be shut down.

Petro-Canada continues to reduce production costs and improve the reliability of its refineries through capital projects and improved operating and maintenance procedures. Ongoing reinstrumentation and computerization projects are well advanced, with work completed at Edmonton and the first phases at Montreal and Lake Ontario Oakville scheduled for completion in 1990.

Petro-Canada's refineries are well configured to respond to the declining supplies of domestic light sweet crude and the worldwide trend to heavier feedstocks. The refineries have an above average ability to process heavy crude. As Canada's leading supplier of asphalt, a heavy crude derivative, the Corporation stands to benefit from the widening spread between light and heavy crude prices. The Lake Ontario lubricants plant has the capability to turn even marginal crudes into high quality lubricating oils and greases. The Edmonton refinery, with units specially designed to process synthetic crude into high-quality transportation fuels, has been handling significant volumes of synthetic crude since 1982. As light sweet crude supplies decline, synthetic crude will become an increasingly attractive feedstock.



Refinery crude capacity* and crude oil processed
(thousands of cubic metres per day)
* At year end



Lubricants sales
(cubic metres per day)

With the start-up of the new $37 million isomerization unit at the Lake Ontario refinery, Petro-Canada stopped producing leaded gasoline in Eastern and Central Canada at year end, 11 months ahead of the legislated deadline. A similar $65 million unit under construction at the Edmonton refinery, on schedule and well under budget, will be operational mid-way through 1990. Petro-Canada will then cease production of leaded gasoline.

In Montreal, a decommissioned refinery site has been restored for sale in 1990. Contaminated soil has been gathered to a restricted area, where research on an economic treatment process is being carried out with the approval of the Quebec Ministry of the Environment.

Building a stronger lubricants business

Petro-Canada continues to develop its lubricants business by capitalizing on the unique attributes of the HydroTreated (HT) base stocks produced at the Lake Ontario refinery. During 1987 and 1988, sales volumes were held back because of the effects of a fire at the manufacturing plant. In 1989, sales rose 38 per cent, with full capacity returned and with increased participation in the export market.

The market for HT lubricants has been broadened through recent work on "Super Compressor Fluids". Formulated from HT base oils and a patented anti-oxidant system developed at the Corporation's Sheridan Park research facility, Super Compressor Fluids are superior to mineral oil compressor fluids and equal to the best synthetic products. Field trials have demonstrated that Super Compressor Fluids offer the user appreciable annual savings from longer service life, significantly reduced downtime for maintenance, and greatly reduced power consumption.

A new product launched internationally in 1989 has already gained excellent market penetration because of its environmental performance. "Purity PDO 220I" is a defoamer oil created through Petro-Canada's HT process. Designed for use by kraft pulp and paper operations in meeting strict dioxin and furan control regulations, Purity PDO 220I is unmatched in environmental protection and overall performance by any other defoamer oil. Studies by the Pulp and Paper Research Institute of Canada have shown that most defoamer oils contain impurities that are changed during the bleaching process into carcinogenic dioxins and furans. Purity PDO 220I contains no carcinogenic impurities above the minimum detectable level of one part per billion.

Petro-Canada has always understood that it is expected to deliver more than good financial results. Canadians believe that socially responsible behaviour should be second nature for their national petroleum corporation.

(Left to right) Vice-Presidents Claude Houde (Corporate Services), Bob Foulkes (Public Affairs) and Bob McCaskill (General Counsel)

In 1989, Petro-Canada developed a new advertising theme, "Committed to Canadians". Those words not only form the signature of each commercial, they also encapsulate Petro-Canada's operating philosophy. The purpose of the campaign is to communicate more fully the Corporation's contribution to the country, strengthen its reputation for good corporate citizenship and add value to the Petro-Canada brand.

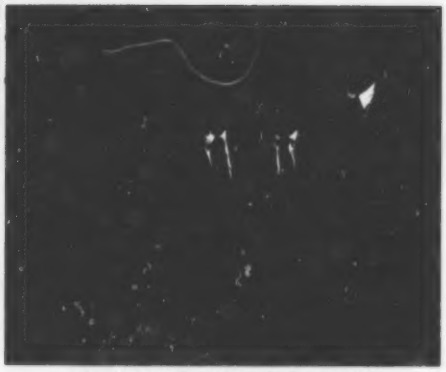
This expectation means greater challenges for employees as they conduct business, but it also provides ongoing opportunities to reinforce the Corporation's position as a valued and respected member of the Canadian community. Petro-Canada takes corporate responsibility seriously, recognizing its fundamental contribution to financial success.

During 1989, concern about the environment emerged as the leading public issue among Canadians. Petro-Canada was able to respond well to this priority. The Corporation emphasizes environmental protection through a specific environmental policy, environmental audits, comprehensive oil spill and emergency response programs and other initiatives. It has also taken a leadership role with industry organizations, such as the Canadian Petroleum Association and the Canadian Petroleum Products Institute, in developing specific programs to assist the industry-at-large in improving its environmental performance. As well, a retail promotion in association with World Wildlife Fund Canada raised approximately $200 000 for the preservation of Canadian endangered species.

A capital intensive initiative underway in 1989 was the removal of leaded gasoline from many markets, well ahead of government requirements. Other downstream expenditures on the environment totaled $37 million, and included a refinery waste water treatment plant, storage improvements at refineries and terminals, and the replacement of older underground tanks at retail locations. Investments for similar environmental enhancements will increase in 1990.

In the upstream, community consultation is used to ensure local environmental concerns are taken into account. In an area adjacent to a major sour gas processing facility, Petro-Canada brought together community representatives, other companies and government agencies to jointly sponsor a five-year study of the effect of sulphur on soils.

Besides environmental initiatives, Petro-Canada supports many other activities that add to the fabric of the nation. Two of these had a high profile during 1989. The "Struggle for Democracy" television series and book, sponsored exclusively by Petro-Canada, was a sophisticated and timely look at a topic of widespread appeal. Since 1987, retail promotions have raised nearly $5 million for aspiring young athletes and coaches through the Olympic Torch Scholarship Fund.



Senior Vice-President Finance and Planning Wesley Twiss (second from left) with (left to right) Chris Smith (Controller), Brant Sangster (Vice-President, Corporate Development) and Harry Roberts (Treasurer)

Change in accounting policy and restatement of shareholder's equity

Effective January 1, 1989, the Corporation retroactively adopted the successful efforts method of accounting for its investment in exploration and development activities. The Corporation had previously followed the full cost method of accounting. Under the successful efforts method, the costs of exploratory wells that are assigned proved reserves are capitalized, while most other exploration costs are charged to earnings as incurred. Under the full cost method, all costs relating to the exploration for oil and gas reserves are capitalized. Petro-Canada believes that the successful efforts method more appropriately reflects the mature nature of its oil and gas operations, which consist of relatively stable reserves and production with exploration focused mainly on oil and gas targets in conventional basins.

The change in accounting method resulted in a reduction in property, plant and equipment and deferred income taxes of $1 859 million and $671 million respectively. Retained earnings were reduced by $1 188 million to a deficit of $1 434 million at January 1, 1989. A contributed surplus of $1 434 million, created upon the surrender of common shares by the Government of Canada, has been offset against this deficit.

Results of operations

Petro-Canada's 1989 revenues totaled $5.0 billion, up 4.5 per cent from the previous year. Earnings before extraordinary item and dividends on redeemable preferred shares increased sharply by $96 million to $85 million.

An extraordinary charge of $54 million relating to the Corporation's reorganization and staff reduction program lowered net earnings to $31 million. This program is expected to reduce ongoing overhead and operating expenses by approximately $170 million from the levels that would otherwise have been reached in 1990. In

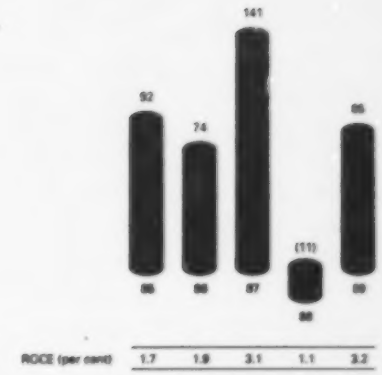
Summary of segmented results

(stated in millions of dollars)

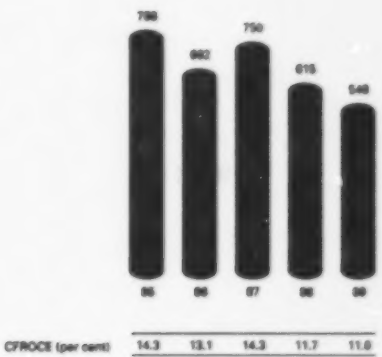
	1989				
	Natural resources	Refining and marketing	Corporate and other	Inter-segment eliminations	Consolidated
Segment revenue	1 142	4 442	73	(640)	5 017
Earnings (loss) before extraordinary item and dividends on redeemable preferred shares	80	104	(99)	–	85
Working capital provided from (used in) operations	379	237	(47)	–	569
Capital and exploration expenditures	338	210	(39)	–	509
Capital employed	2 551	2 810	582	–	5 943

	1988				
	Natural resources	Refining and marketing	Corporate and other	Inter-segment eliminations	Consolidated
Segment revenue	989	4 245	83	(516)	4 801
Earnings (loss) before extraordinary item and dividends on redeemable preferred shares	(89)	102	(24)	–	(11)
Working capital provided from (used in) operations	379	299	(54)	–	624
Capital and exploration expenditures	610	162	97	–	869
Capital employed	2 650	2 585	752	–	5 987

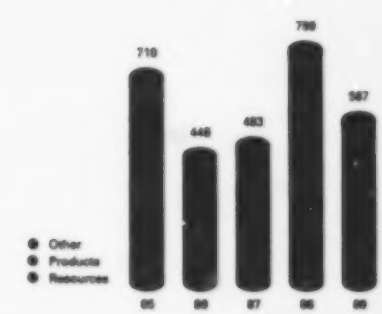
Building a base for higher profitability



Earnings* and return on capital employed
(millions of dollars)
*Before extraordinary and unusual items and dividends on redeemable preferred shares



Cash flow and cash flow return on capital employed
(millions of dollars)



Components of expenditures on property, plant and equipment and exploration
(millions of dollars)

the previous year, the Corporation recorded a net loss of $43 million after an extraordinary write-down of $22 million in the carrying value of the investment in Sedpex Inc., and $10 million of dividends on preferred shares redeemed that year.

The improvement in consolidated results came from the Resources division, where $103 million was generated mainly by higher oil prices and greater natural gas volumes, despite lower crude oil production and slightly lower natural gas prices. Substantially reduced exploration, depreciation, depletion and amortization charges contributed $155 million. The reduction in these charges was attributable to the 1988 write-down in the value of certain oil and gas properties under the Corporation's successful efforts based ceiling test. Overall, pretax segment earnings were up by $258 million. On an after-tax basis, earnings from natural resource operations improved by $169 million to $80 million.

Products division earnings of $104 million were essentially flat compared to 1988. Gains of $197 million from higher sales volumes and prices of refined products were eroded by an increase in crude costs of $135 million and higher marketing expenses. The latter resulted primarily from reidentification to the "Maximum" line of refined products.

The loss from Corporate and other activities rose to $99 million from $24 million in 1988 due to higher interest expenses – mainly driven by higher interest rates and an increase in the average debt level – as well as higher unrealized intersegment profits in inventory and a reduction in foreign exchange gains.

Cash flow return on capital employed, reflecting lower cash flow on a before-interest basis, was down from 11.7 per cent to 11.0 per cent. Return on capital employed moved from 1.1 per cent to 3.2 per cent, while return on equity was 3.1 per cent, up from a negative 0.8 per cent in 1988. The latter two indicators reflect the turnaround in earnings.

Internally generated cash

Working capital provided from operations, which eliminates the impact of exploration expenses and non-cash transactions on earnings, declined to $569 million from $624 million in 1988. This decline occurred in the Products division. Proceeds from asset sales net of deliveries of prepaid natural gas added $92 million to cash flow in 1989, compared to a decrease of $1 million in 1988. The higher 1989 amount, which reflects the initiation of the Corporation's divestiture program, pushed internally generated cash from operations to $661 million, up from the 1988 level of $623 million.

Summary of internally generated cash

(stated in millions of dollars)	1989	1988
Working capital provided from operations	569	624
Proceeds from sale of assets net of advances on future natural gas deliveries	92	(1)
Internally generated cash from operations	661	623
(Increase) decrease in operating working capital	(185)	203
	476	826

Business conditions

Economy
- seven years of successive growth
- slowdown in economic activity in last quarter of 1989
- slowdown could weaken demand for refined products and natural gas in 1990

Free Trade
- agreement reinforces free flow of energy products between Canada and the United States
- should have a generally positive impact through more open access to U.S. markets, especially for natural gas

Federal Goods and Services Tax
- targeted for implementation in 1991
- could put upward pressure on inflation during transition period; should have positive effect thereafter
- may result in some short-term slackening in domestic demand growth for refined products and natural gas

Business conditions more specific to the Products and Resources divisions are discussed in those chapters. A general discussion is included in the Feature Article.

Including the effects of the extraordinary item, operating working capital requirements rose by $185 million in 1989. This increase occurred primarily in the Products division where higher crude prices were reflected in the inventories of crude oil and refined products. Related but largely offsetting increases were also experienced in the Products division's accounts receivable and accounts payable. The 1988 decrease in operating working capital of $203 million resulted mainly from the effect of lower crude oil prices on downstream inventories. The year-end investment in operating working capital – current assets less cash and short-term deposits, and accounts payable and accrued liabilities – stood at $688 million compared with $606 million at the end of 1988.

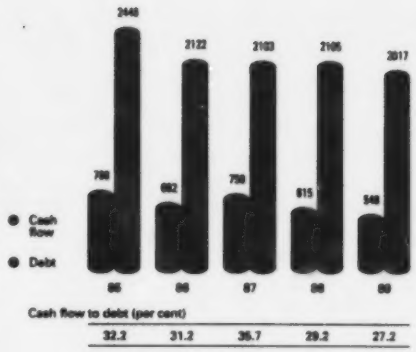
Investment activities

In 1989, expenditures on property, plant, equipment and exploration totaled $567 million, a 29 per cent decrease from 1988. The natural resources segment accounted for 59 per cent of the outlays, compared with 76 per cent in 1988. Refining, marketing and other expenditures accounted for 41 per cent in 1989 and 24 per cent in 1988. The Corporation's reinvestment ratio of 1.03 in 1989 and 1.30 in 1988 reflects an aggressive expenditure program aimed at improving earnings and cash flow while strengthening Petro-Canada's competitive position.

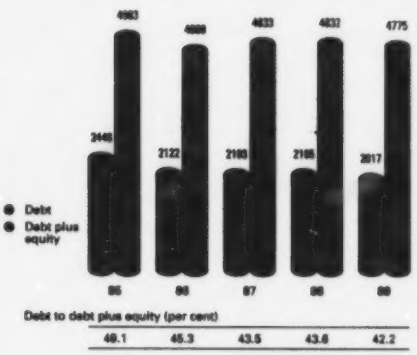
The Resources division spent $334 million on exploration, development and oil sands, with a focus on Western Canada natural gas and international exploration. Expenditures for conventional activities in Western Canada were $99 million for exploration and $153 million for development. Spending in international areas was $59 million and in oil sands and frontier $32 million. In 1988, acquisitions of $101 million for natural gas production properties, combined with a number of promising development opportunities in Western Canada, pushed expenditures to $611 million.

Refining, marketing and other expenditures on property, plant and equipment were up by $45 million in 1989 to $233 million as the Products division continued with its capital program to enhance operating efficiencies at refineries and meet legislated requirements for the phase-out of leaded gasolines. In addition, upgrading of wholesale and retail marketing sites, including the replacement of underground storage tanks, was continued. Downstream and other capital expenditures of $188 million in 1988 were largely directed to marketing network enhancements, refinery upgrades to meet octane requirements and the integration of the Edmonton and Port Moody refineries.

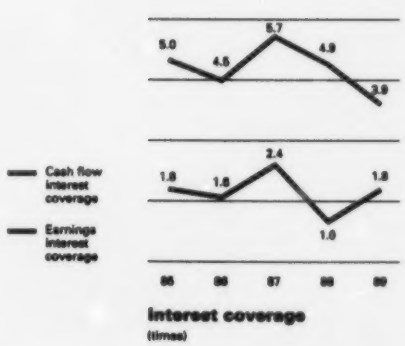
In 1989, equity investments contributed net funds of $76 million through a $95 million partial repayment of advances by Petro-Canada Centre to Petro-Canada. Offsetting this inflow was a $16 million investment in shares of Westcoast Energy Inc. by way of dividend reinvestment and direct purchases. Investments in 1988 of $52 million were primarily for Westcoast share purchases. These share purchases have enabled Petro-Canada to maintain a significant equity position in Westcoast, representing approximately 37 per cent of that company's outstanding common stock. Increases in deferred charges in 1989 and 1988 of $18 million were largely due to additional pension funding.



Cash flow to debt
(millions of dollars)



Debt to debt plus equity
(millions of dollars)



Interest coverage
(times)

Subject to business conditions, the Corporation anticipates that capital and exploration expenditures in 1990 will approach $1.2 billion, an increase of about $600 million over 1989. Of the increase, approximately $275 million will be related to the purchase of the Inter-City Gas Corporation's propane assets and $120 million is for the MTBE project. The balance of the increase will be directed mainly to oil and natural gas activities, including offshore development. Sales of assets are expected to accelerate in 1990, with a planned realization in excess of $300 million in proceeds. A broad range of upstream and downstream assets is being considered. Divestitures are an essential component of funding for the 1990 capital and exploration expenditure program and will continue into 1991 and 1992 as the Corporation further rationalizes its asset base.

Financing activities

At the end of 1989, Petro-Canada's combined short- and long-term debt level was $1 948 million, a reduction of $62 million from the previous year. This decrease is comprised of a new long-term debt issue of $232 million offset by a reduction in short-term notes payable of $258 million and a favourable translation adjustment pertaining to U.S. dollar denominated long-term debt. Consequently, the short-term portion of combined debt dropped significantly from 48 per cent in 1988 to 36 per cent at year end. New long-term debt consisted of a placement of U.S. $200 million, 30-year debentures with a coupon rate of 8.80 per cent which can be redeemed at the option of the holder in 2004. This financing was undertaken to reduce short-term notes payable and thereby lessen the Corporation's exposure to fluctuations in short-term interest rates. In 1988, financing activities centred around the $883 million redemption of preferred shares. This redemption was financed by $361 million of long-term debt and additional short-term notes.

During 1989, Petro-Canada Centre Finance Inc., 50 per cent owned by Petro-Canada, negotiated a private Canadian offering of $125 million, five-year debentures with a coupon rate of 10 per cent. This off balance sheet financing pertains to the Petro-Canada Centre head office complex in Calgary in which the Corporation holds a 50 per cent joint venture interest. Proceeds from the financing were used in part to repay $95 million due to Petro-Canada. As at December 31, 1989, the Corporation has guaranteed $227 million of debt related to the facility, fully secured by a series of underlying debentures. In addition to the $125 million issued in 1989, this debt also comprises two $50 million private placements at 8.92 per cent and 10.10 per cent maturing in 1993.

The Corporation's cash flow to debt ratio stood at 27.2 per cent at year end compared with 29.2 per cent in 1988. The year-over-year decrease stemmed from lower cash flows. Debt as a percentage of debt plus equity improved from 43.6 per cent to 42.2 per cent owing to the lower year-end debt level. Interest coverage (earnings basis) increased to 1.8 in 1989 from 1.0 in 1988 due to improved earnings, while weaker cash flows dropped the cash-based ratio from 4.9 to 3.9 times.

Financing policies and outlook

Petro-Canada's recent long-term debt issues have served to lengthen the average term to maturity of the Corporation's long-term debt to approximately 15 years. To the extent that this capital finances long-term assets or a specific long-term commitment, the average term will be maintained or increased with a view to matching the average life of the Corporation's assets. Short-term debt will continue to be used primarily for working capital and bridge financing purposes. In addition to meeting general corporate requirements, future long-term debt issues will be utilized to finance capital expenditures, refinance short-term debt and finance other corporate activities.

As a major integrated oil and gas company, Petro-Canada generates direct revenues in both Canadian and U.S. dollars. Because crude oil and natural gas production is traditionally priced in U.S. dollars, significant revenues are affected by fluctuations in the value of the Canadian dollar against the U.S. dollar. In order to reduce currency exposure, the Corporation's borrowing requirements are funded primarily in U.S. dollars, thereby providing a partial hedge against such fluctuations. The Corporation continually monitors its foreign currency requirements and maintains a policy of review and application of hedging strategies to mitigate any risk of loss due to currency fluctuations.

In January 1990, Petro-Canada placed a U.S. $300 million issue of 8.60 per cent debentures due in 2010. Overall debt levels are expected to increase by about $200 million in 1990, based upon Petro-Canada's business outlook and planned investments and capital expenditures. As a Crown corporation, Petro-Canada has been able to finance as an agent of the Government of Canada and could take advantage of the highest credit rating ("AAA") for its debt instruments. In order to facilitate Petro-Canada's timely access to the U.S. domestic market, the Corporation files annual shelf registrations with the Securities and Exchange Commission in Washington, D.C. As of February 1990, the Corporation had unused capacity of U.S. $400 million available on its shelf registration.

On the basis that a signed agreement is in place by mid 1990 to proceed with the development of Hibernia, the Corporation should incur approximately $1 billion of estimated net pre-production expenditures over the 1990 to 1996 period. Significant expenditures would commence in 1991, amounting to about $105 million, with a further $200 million in 1992 and 1993. Government guaranteed project-related financing would cover approximately 40 per cent of pre-production development costs; the remainder would be funded by way of internally generated cash and general corporate financings.

Added commitments in the 1990s, specifically for megaprojects, point to the need for additional financing requirements. In spite of risk sharing with governments through direct government grants, guaranteed debt, interest assistance facilities and lender risk sharing on such projects, considerable risk will accrue to Petro-Canada as a participant. While megaprojects could be funded by special debt issues with repayments related to project cash flows, prudent management dictates the necessity of significant equity infusions to balance appropriately the Corporation's capital structure.

Glossary of Financial Ratio Terms

Cash flow
Working capital provided from operations (as disclosed in the financial statements) less dividends on redeemable preferred shares plus investment tax credits, exploration tax credits and changes in advances on future natural gas deliveries.

Capital employed
Total assets less current liabilities excluding short-term notes payable and the current portion of long-term debt.

Debt
Long-term debt including current portion of long-term debt, short-term notes payable, outstanding cheques less cash, advances on future natural gas deliveries and redeemable preferred shares valued at year-end Cdn./U.S. dollar exchange rates.

Equity
Shareholder's equity adjusted for the valuation of redeemable preferred shares at year-end Cdn./U.S. dollar exchange rates.

Cash flow to debt
Cash flow divided by debt.

Debt to debt plus equity
Debt divided by debt plus year-end equity.

Interest coverage
Earnings basis: Earnings before interest expenses, provision for income taxes, extraordinary and unusual items and dividends on redeemable preferred shares divided by interest expense plus capitalized interest plus dividends on redeemable preferred shares multiplied by 1/1-tax rate.

Cash flow basis: Working capital provided from operations before interest expenses and provision for current income taxes plus changes in advances on future natural gas deliveries divided by interest expense plus capitalized interest plus dividends on redeemable preferred shares multiplied by 1/1-tax rate.

Reinvestment ratio
Expenditures on property, plant and equipment and exploration less Petroleum Incentive Program grants divided by cash flow.

Cash flow return on capital employed
Cash flow plus tax adjusted interest expense and dividends on redeemable preferred shares divided by average capital employed.

Return on capital employed
Earnings before extraordinary and unusual items and dividends on redeemable preferred shares plus tax adjusted interest expense, divided by average capital employed.

Return on equity
Earnings before extraordinary and unusual items and after dividends on redeemable preferred shares, divided by average equity.

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances. Management is responsible for the other information in the Annual Report, which is consistent, where applicable, with that contained in the financial statements. Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced. The Corporation has an internal audit department whose functions include reviewing the system of internal control to ensure that it is adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, a majority of which is composed of directors who are not employees of the Corporation. The committee meets with management, the internal auditors and the external auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements.

The external auditors conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board.

Auditors' Report

To the Honourable Jake Epp, P.C., M.P.
Minister, Energy, Mines and Resources Canada
House of Commons, Ottawa, Ontario

We have examined the consolidated balance sheets of Petro-Canada (incorporated by Special Act of the Parliament of Canada) as at December 31, 1989 and 1988 and the related consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for oil and gas exploration, development and production activities as explained in Note 2 to the consolidated financial statements, on a consistent basis.

Further, we have examined the transactions of the Corporation and its consolidated wholly owned subsidiaries that came to our notice in the course of the above mentioned examinations, to determine whether they were in accordance with Part X of the Financial Administration Act, the regulations, the charter and by-laws of the Corporation and its consolidated wholly owned subsidiaries and any directives given to the Corporation pursuant to the Act. Our examinations of these transactions were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Arthur Andersen & Co.

Chartered Accountants

Calgary, Alberta
February 22, 1990

Petro-Canada

Consolidated Statement of Earnings

For the year ended December 31, 1989
(stated in millions of dollars)

	1989	1988 (Restated) (Note 2)
Revenue		
Operating	$ 4 852	$ 4 669
Investment and other income	165	132
	5 017	4 801
Expenses		
Crude oil and product purchases	1 977	1 939
Marketing, general and administrative	972	891
Producing and refining	814	777
Exploration	98	114
Depreciation, depletion and amortization	401	536
Federal sales and other taxes	384	383
Interest on long-term debt	101	71
Other interest	101	60
	4 848	4 771
Earnings before Undernoted Items	169	30
Provision for Income Taxes (Note 3)		
Current	47	52
Deferred	37	(11)
	84	41
Earnings (Loss) before Extraordinary Item and Dividends on Redeemable Preferred Shares	85	(11)
Extraordinary Item (Note 4)	54	22
Net Earnings (Loss) before Dividends on Redeemable Preferred Shares	31	(33)
Dividends on Redeemable Preferred Shares (Note 5)	–	10
Net Earnings (Loss) after Dividends on Redeemable Preferred Shares	$ 31	$ (43)

Petro-Canada

Consolidated Statement of Retained Earnings

For the year ended December 31, 1989
(stated in millions of dollars)

	1989	1988 (Restated) (Note 2)
Retained Earnings (Deficit) at Beginning of Year	**$ (1 434)**	**$ (1 340)**
Transfer from contributed surplus (Note 14)	**1 434**	–
Net earnings (loss) before dividends on redeemable preferred shares	**31**	(33)
Dividends on redeemable preferred shares	–	(10)
Exchange adjustment on redemption of redeemable preferred shares	–	(51)
Retained Earnings (Deficit) at End of Year	**$ 31**	**$ (1 434)**

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1989
(stated in millions of dollars)

	1989	1988 (Restated) (Note 2)
Internally Generated Cash		
Working capital provided from operations (Note 6)	$ 569	$ 624
Proceeds from sale of assets	118	22
Advances on future natural gas deliveries	(26)	(23)
Internally generated cash from operations	661	623
(Increase) decrease in operating working capital (Note 7)	(185)	203
	476	826
Investment Activities		
Expenditures on property, plant and equipment and exploration	567	799
(Decrease) increase in investments, net	(76)	52
Increase in deferred charges, net	18	18
	509	869
Financing Activities and Dividends		
Proceeds from issue of long-term debt	240	361
(Decrease) increase in short-term notes payable, net	(258)	655
Reduction of long-term debt	(6)	(6)
Redemption of redeemable preferred shares	–	(883)
Dividends on redeemable preferred shares	–	(10)
	(24)	117
(Decrease) Increase in Cash	(57)	74
Cash and Short-Term Deposits at Beginning of Year	84	10
Cash and Short-Term Deposits at End of Year	$ 27	$ 84

Petro-Canada

Consolidated Balance Sheet

As at December 31, 1989
(stated in millions of dollars)

	1989	1988 (Restated) (Note 2)
Assets		
Current Assets		
Cash and short-term deposits	$ 27	$ 84
Accounts receivable	807	734
Inventories (Note 8)	677	560
Income taxes recoverable	34	36
Prepaid expenses	45	41
	1 590	1 455
Investments (Note 9)	467	539
Property, Plant and Equipment, net (Note 10)	4 668	4 675
Deferred Charges (Note 11)	93	83
	$ 6 818	$ 6 752
Liabilities and Shareholder's Equity		
Current Liabilities		
Short-term notes payable	$ 710	$ 968
Accounts payable and accrued liabilities	875	765
Current portion of long-term debt	6	6
	1 591	1 739
Long-Term Debt (Note 12)	1 232	1 036
Deferred Credits (Note 13)	231	213
Deferred Income Taxes	1 006	1 037
Shareholder's Equity (Note 14)	2 758	2 727
	$ 6 818	$ 6 752

Approved on behalf of the Board

Director

Director

Notes to Consolidated Financial Statements

December 31, 1989
(stated in millions of dollars)

Note 1: Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Petro-Canada, an agent of Her Majesty in right of Canada, and of all subsidiary companies ("the Corporation") except Canertech Inc., which is excluded for the reason described in Note 9.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil, refined products and merchandise is determined on a "first-in, first-out" basis.

(c) Investments

The Corporation accounts for investments in companies over which it has significant influence on the equity method. Other long-term investments are accounted for on the cost method.

(d) Property, Plant and Equipment

The Corporation accounts for its investment in exploration and development activities on the successful efforts method (Note 2). Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Corporation's exploration and development activities are conducted jointly with others. Only the Corporation's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

Overburden removal costs relating to oil sands which will be mined in future years are deferred and are charged to earnings when the related oil sands are mined.

(e) Depreciation, Depletion and Amortization

The carrying amounts of significant unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings. The cost of other unproved properties is amortized over their average holding period.

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method. The Corporation applies a "ceiling test" to capitalized costs in each individual field to ensure that such costs do not exceed the fair market value of the related proved reserves.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method as appropriate. Straight line depreciation rates are based on the estimated service lives of the related assets.

Note 1: (Continued)

(f) Income Taxes

The Corporation makes full provision for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to earnings.

(g) Translation of Foreign Currency

Current assets, except inventories and prepaid expenses, current liabilities and long-term debt are translated at rates of exchange in effect at the balance sheet date. Long-term assets, inventories, prepaid expenses, deferred income taxes, redeemable preferred shares and revenue and expense items are translated at rates of exchange in effect at the respective transaction dates. Depreciation, depletion and amortization expense reflects rates of exchange in effect when the related assets were acquired.

The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Corporation's other activities and are translated in the manner described above.

(h) Postemployment Benefits

In addition to its pension plans the Corporation provides for other postemployment benefits, including health, dental and life insurance, to its qualifying retirees. The cost of these benefits is charged to earnings when paid by the Corporation.

Note 2: Change in Accounting Policy

Effective January 1, 1989 the Corporation retroactively adopted the successful efforts method of accounting for its investment in exploration and development activities [Note 1(d) & (e)]. Previously the Corporation had followed the full cost method of accounting. This change, which increased 1989 net earnings by $19 million, resulted in the following adjustments to previously reported 1988 amounts.

1988 Balances	Balance as Previously Reported	Adjustment	Balance as Restated
Opening retained earnings (deficit)	$ (289)	$ (1 051)	$ (1 340)
Property, plant and equipment, net	6 534	(1 859)	4 675
Deferred income taxes	1 708	(671)	1 037
Closing retained earnings (deficit)	(246)	(1 188)	(1 434)
Net earnings (loss) after dividends on redeemable preferred shares	94	(137)	(43)

Note 3: Income Taxes

The provision for income taxes of $84 million (1988 – $41 million) represents an effective rate of 49.7% (1988 – 136.7%) on earnings before income taxes of $169 million (1988 – $30 million). The computation of the provision, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

	1989	1988
Earnings before income taxes	$ 169	$ 30
Add (deduct)		
Royalties and other payments to provincial governments	137	135
Federal allowances		
Resource allowances	(111)	(107)
Tax depletion	(41)	(8)
Non-deductible depreciation, depletion and amortization	82	90
Non-taxable gains	(7)	(14)
Equity in earnings of affiliates	(31)	(21)
Other	(8)	4
Earnings as adjusted before income taxes	$ 190	$ 109
Canadian Federal income tax at 39.5% (1988 – 42.4%) applied to earnings as adjusted	$ 75	$ 46
Provincial and other income taxes, net of federal abatement	14	–
Provincial income tax rebates	(5)	(5)
Provision for income taxes	$ 84	$ 41

Note 4: Extraordinary Item

During 1989 the Corporation commenced an internal reorganization program which resulted in a staff reduction. The cost of this program, in the amount of $54 million (after deducting related income taxes of $38 million) was charged to 1989 earnings.

During 1988 the Corporation wrote down the carrying value of its investment in Sedpex Inc. (Note 9) due to uncertain dayrates and low utilization of offshore drilling rigs. The amount of this charge to earnings was $22 million including related income taxes of $2 million.

Note 5: Redeemable Preferred Shares

During 1988 a subsidiary redeemed 7 092 983 shares for a consideration of U.S. $709 million. The 1988 redemption comprised virtually all the remaining outstanding shares.

Notes to Consolidated Financial Statements

December 31, 1989
(stated in millions of dollars)

Note 6: Working Capital Provided from Operations

	1989	1988
Earnings (loss) before extraordinary item and dividends on redeemable preferred shares	$ 85	$ (11)
Add (deduct)		
Depreciation, depletion and amortization	401	536
Exploration expense	98	114
Deferred income taxes	37	(11)
(Gain) loss on sale of assets	(37)	2
Equity earnings, net of dividends received	(6)	2
Other	(9)	(8)
	$ 569	$ 624

Note 7: (Increase) Decrease in Operating Working Capital

	1989	1988
Accounts receivable	$ (73)	$ 158
Inventories	(117)	161
Income taxes recoverable	2	(32)
Prepaid expenses	(4)	12
Accounts payable and accrued liabilities	110	(99)
Extraordinary item	(92)	-
Other	(11)	3
	$ (185)	$ 203

Operating working capital is comprised of working capital other than cash and short-term deposits, short-term notes payable and current portion of long-term debt.

Note 8: Inventories

	1989	1988
Crude oil, refined products and merchandise	$ 615	$ 495
Materials and supplies	62	65
	$ 677	$ 560

Note 9: Investments

	1989	1988
At equity		
Westcoast Energy Inc.	$ 293	$ 269
Petro-Canada Centre	94	189
Sedpex Inc.	18	18
Other	24	22
At cost		
Mortgages and other investments	38	41
	$ 467	$ 539

Note 9: (Continued)

Westcoast Energy Inc. ("Westcoast")

At December 31, 1989 the Corporation held approximately 37% (1988 - 37%) of the outstanding common shares of Westcoast with a quoted market value of $378 million (1988 - $280 million).

Petro-Canada Centre

The Corporation holds 50% of a joint venture which owns Petro-Canada Centre, an office complex in Calgary. The Corporation has entered into a long-term lease for use of a portion of the complex and, as at December 31, 1989, has guaranteed $227 million of long-term debt related to the facility.

Sedpex Inc.

The Corporation holds 50% of the outstanding common shares of Sedpex Inc., a company which owns a semi-submersible drilling vessel.

Canertech Inc. ("Canertech")

The accounts of Canertech, a wholly owned subsidiary company, have been excluded from consolidation because a formal plan exists to dispose of the investment in the subsidiary. In response to a directive by the Government of Canada, the Corporation incorporated Canertech in 1981 to develop alternate energy sources. At that time the Government indicated its intention of purchasing the Corporation's investment at cost and establishing Canertech as an independent Crown corporation. The Corporation is proceeding with the implementation of a Government directive to bring about the dissolution of Canertech. The Corporation's investment in Canertech is carried in the accounts at its original cost of one dollar.

Note 10: Property, Plant and Equipment

	1989			1988			1989	1988
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Capital Expenditures	
Natural Resources								
Oil and gas								
Canada	$ 3 923	$ 2 153	$ 1 770	$ 3 867	$ 2 033	$ 1 834	$ 187	$ 441
Foreign	87	57	30	67	52	15	22	3
Oil sands								
Syncrude Project	764	173	591	751	153	598	13	42
Other oil sands	219	219	–	212	212	–	7	5
Natural gas liquids	217	103	114	210	89	121	4	4
Other	76	53	23	105	81	24	3	2
	5 286	2 758	2 528	5 212	2 620	2 592	236	497
Refining and Marketing	2 700	693	2 007	2 495	550	1 945	208	159
Other Property, Plant and Equipment	322	189	133	299	161	138	25	29
	$ 8 308	$ 3 640	$ 4 668	$ 8 006	$ 3 331	$ 4 675	$ 469	$ 685

Capital expenditures for the year include $ nil (1988 – $12 million) of capitalized interest expense.

Note 11: Deferred Charges

	1989	1988
At cost		
Oil sands overburden removal costs	$ 43	$ 39
Less portion related to oil sands to be mined within one year	18	17
	25	22
Deferred pension funding	36	27
At amortized cost		
Deferred financing costs	17	17
Other	15	17
	$ 93	$ 83

Note 12: Long-Term Debt

	Maturity	1989	1988
In Canadian dollars			
8.25% unsecured notes	1993	$ 11	$ 11
In United States dollars			
7.75% unsecured notes (U.S. $12 million)	1993	14	15
LIBOR less 0.8% unsecured notes (U.S. $125 million)	1995	144	149
9% unsecured notes (U.S. $23 million)	1995	26	31
7.25% unsecured debentures (U.S. $200 million)	1996	232	239
9.50% unsecured debentures (U.S. $200 million)	2003	232	239
8.25% unsecured debentures (U.S. $200 million)	2016	232	239
9.70% unsecured debentures (U.S. $100 million)	2018	115	119
8.80% unsecured debentures (U.S. $200 million)	2019*	232	–
		1 238	1 042
Less current portion		6	6
		$ 1 232	$ 1 036

*Redeemable in 2004 at the option of the holder thereof.

Repayment of long-term debt

The minimum repayment of long-term debt in each of the next five years is as follows:
1990 – $6 million 1991 – $6 million 1992 – $7 million 1993 – $24 million 1994 – $4 million

Note 13: Deferred Credits

	1989	1988
Translation adjustment on long-term debt	$ 114	$ 88
Advances on future natural gas deliveries	69	95
Long-term liabilities	48	30
	$ 231	$ 213

Note 14: Shareholder's Equity

Authorized Capital

(a) 71 188 common shares with a par value of one hundred thousand dollars each, and

(b) Preferred shares issued to the Government of Canada provided that the amount of such shares together with any loans received, and outstanding, from the Consolidated Revenue Fund of the Government of Canada is not in excess of one billion dollars. These shares have a par value of one dollar each, are redeemable at par at the option of the Corporation, carry no stated rate of dividend and are non-cumulative.

Issued (to the Government of Canada)

	1989		1988	
	Number of Shares		Number of Shares	
Common shares	17 540	$ 1 754	31 883	$ 3 188
Preferred shares	972 771 853	973	972 771 853	973
Total capital		2 727		4 161
Retained earnings (deficit)		31		(1 434)
		$ 2 758		$ 2 727

Contributed Surplus

During 1989 the Board of Directors approved the adoption of the successful efforts method of accounting which resulted in a decrease in retained earnings to a deficit of $1 434 million as at January 1, 1989. It was contemplated that this deficit would be offset against capital, subject to shareholder's approval. On February 21, 1990, His Excellency the Governor General in Council approved the surrender for cancellation of 14 343 common shares. This surrender and cancellation of these shares resulted in a contributed surplus of $1 434 million. Shareholder's equity at December 31, 1989 has been adjusted to give effect to the contributed surplus and its offset against the deficit.

Note 15: Pension Plans

The Corporation's plans are defined benefit plans with the benefits generally based upon years of service and average salary during the final years of employment. They are funded by the Corporation based upon the advice of an independent actuary.

Plan Status as at December 31

	1989	1988
Actuarial value of assets	$ 495	$ 445
Pension obligation	470	427
Net pension asset	$ 25	$ 18

Note 15: (Continued)

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 12 years.

Pension funding and expense amounted to $29 million (1988 - $32 million) and $17 million (1988 - $16 million) respectively.

Note 16: Related Party Transactions

Transactions with the Government of Canada and its agencies are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

Note 17: Segmented Information

The Corporation operates in two business segments:

Natural resources, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Refining and marketing, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Corporate and other includes investment income, interest expense and unallocated general corporate revenues and expenditures. Corporate and other assets are principally cash and short-term deposits, investments in other companies and general corporate assets.

	Natural Resources		Refining and Marketing		Corporate and Other		Consolidated	
	1989	1988	1989	1988	1989	1988	1989	1988
Revenue								
Sales to customers and other revenues	$ 502	$ 473	$ 4 442	$ 4 245	$ 73	$ 83	$ 5 017	$ 4 801
Inter-segment sales	640	516	–	–	–	–		
Segment Revenue	$ 1 142	$ 989	$ 4 442	$ 4 245	$ 73	$ 83		
Earnings								
Operating earnings before depreciation, depletion and amortization	$ 518	$ 415	$ 339	$ 336	$ 13	$ 60	$ 870	$ 811
Depreciation, depletion and amortization	(249)	(388)	(147)	(142)	(5)	(6)	(401)	(536)
Exploration expense	(98)	(114)	–	–	–	–	(98)	(114)
Interest	–	–	–	–	(202)	(131)	(202)	(131)
Provision for income taxes	(91)	(2)	(88)	(92)	95	53	(84)	(41)
Earnings (Loss) before Extraordinary Item and Dividends on Redeemable Preferred Shares	$ 80	$ (89)	$ 104	$ 102	$ (99)	$ (24)	$ 85	$ (11)
Capital and Exploration Expenditures								
Property, plant and equipment and exploration expenditures	$ 334	$ 611	$ 208	$ 159	$ 25	$ 29	$ 567	$ 799
Investments	–	–	(1)	1	(75)	51	(76)	52
Deferred charges	4	(1)	3	2	11	17	18	18
	$ 338	$ 610	$ 210	$ 162	$ (39)	$ 97	$ 509	$ 869
Total Assets	$ 2 786	$ 2 870	$ 3 394	$ 3 101	$ 638	$ 781	$ 6 818	$ 6 752
Capital Employed	$ 2 551	$ 2 650	$ 2 810	$ 2 585	$ 582	$ 752	$ 5 943	$ 5 987

Note 18: Comparative Figures

Certain reclassifications have been made to the 1988 comparative figures to conform with the current year's presentation.

Note 19: Commitments and Contingencies

Commitments

(a) The Corporation has leased property and equipment under various long-term operating leases for periods up to 2008. The minimum annual rentals for non-cancellable operating leases are estimated at $55 million in 1990, $53 million in 1991, $53 million in 1992, $44 million in 1993, $41 million in 1994 and $23 million per year thereafter until 2008.

(b) Pursuant to an agreement reached on December 11, 1989 with Westcoast Energy Inc. the Corporation has agreed to purchase the propane business of Inter-City Gas Corporation ("ICG") for a consideration of $265 million plus an earnings adjustment. The purchase is conditional on obtaining certain regulatory approvals and the approval of ICG's shareholders. It is anticipated this transaction will close near the end of the first quarter of 1990.

Contingencies

The Corporation is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Corporation.

Note 20: Subsequent Events

(a) On January 10, 1990 the Corporation sold U.S. $300 million of 8.60% debentures due January 15, 2010. The net proceeds of the sale of approximately $345 million (U.S. $297 million) were used to reduce short-term indebtedness.

(b) On February 20, 1990 the Government of Canada announced its intention to introduce legislation in 1990 to authorize the Corporation to sell share capital to the public. An initial public offering of treasury shares is expected to be followed by further share issues over a number of years. The arrangements for the sale of shares, which have not been finalized, will include changes to the Corporation's capital structure and legal status.

Supplemental Information

Reserves Information
(proved reserves, net after royalties)

	1989			1988		
	Developed	Undeveloped	Total	Developed	Undeveloped	Total
Crude oil and natural gas liquids (millions of barrels)						
Conventional crude oil	**174.2**	**11.1**	**185.3**	195.8	33.6	229.4
Synthetic crude oil	**194.5**	**18.0**	**212.5**	198.3	20.3	218.6
Natural gas liquids	**33.4**	**3.6**	**37.0**	33.0	3.9	36.9
Total	**402.1**	**32.7**	**434.8**	427.1	57.8	484.9
Natural gas (billions of cubic feet)	**2 033.2**	**669.5**	**2 702.7**	2 097.8	715.2	2 813.0

	1989			1988		
	Conventional oil and NGL (millions of barrels)	Synthetic crude oil (millions of barrels)	Natural gas (billions of cubic feet)	Conventional oil and NGL (millions of barrels)	Synthetic crude oil (millions of barrels)	Natural gas (billions of cubic feet)
Balance at beginning of year	**266.3**	**218.6**	**2 813.0**	248.7	212.5	2 776.4
Revisions of previous estimates	**(17.2)**	**2.9**	**48.2**	39.1	15.2	32.5
Extension and discoveries	**2.5**	**–**	**23.1**	2.2	–	34.2
Purchases	**0.9**	**–**	**20.5**	–	–	114.6
Sales	**(7.9)**	**–**	**(34.2)**	–	–	–
Production	**(22.3)**	**(9.0)**	**(167.9)**	(23.7)	(9.1)	(144.7)
Balance at end of year	**222.3**	**212.5**	**2 702.7**	266.3	218.6	2 813.0

Notes:
1. Reserves quantities in the Annual Report, excluding synthetic crude oil, are reported based on estimates consistent with the knowledge of the characteristics and extent of underlying productive formations at each year end.
2. The above figures include Petro-Canada's 17 per cent interest in the synthetic crude oil reserves of Syncrude. These reserves are based on the demonstrated production capacity of the Syncrude plant calculated over the remaining term of the current operating permit to the year 2013. The Syncrude project is subject to a royalty agreement between the Province of Alberta and the Syncrude participants whereby the Province has the right to 50 per cent of Syncrude's deemed net profit. The Province has an option to convert its royalty to a 7.5 per cent gross overriding royalty. The net after-royalty reserves of Syncrude are based on an estimated average royalty rate for the life of the project based on deemed net profits and current prices and operating costs.

Reserves and Production Discussion

- Proved reserves of conventional oil and NGL declined from year-end 1988 due in part to the sale of non-strategic Western Canada properties and the reclassification of Wolf Lake reserves.
- Natural gas proved reserves decreased by 110 billion cubic feet over 1988, partly as a result of higher production levels and sales of properties.
- Reserves information presented in the accompanying tables does not include potential and probable reserves. Reserves associated with the Hibernia and Terra Nova offshore projects and the OSLO oil sands project will be booked at the time a commitment is made to proceed with development.
- The following two tables list the top conventional oil and natural gas fields, representing about 50 per cent of the Corporation's year-end proved reserves and 1989 production.

Principal Reserves Locations

Conventional oil		Natural gas	
Field	% of proved reserves at December 31, 1989	Field	% of proved reserves at December 31, 1989
Valhalla	11	Hanlan	10
Pembina	8	Whitecourt	7
Bellshill Lake	8	Yoyo	6
Nipisi	6	Medicine Hat	4
Swan Hills	6	Laprise	4
Cactus Lake	5	Ricinus	4
Utikuma	5	Kaybob South	3
Wainwright	4	Brazeau	3
		Alderson	3
		Hatton	2
		Gilby	2
		Clarke Lake	2
	53		50

Principal Production Locations

Conventional oil		Natural gas	
Field	% of 1989 production	Field	% of 1989 production
Bellshill Lake	14	Yoyo	12
Utikuma	8	Hanlan	12
Valhalla	7	Whitecourt	5
Nipisi	6	Laprise	5
Brazeau	5	Clarke Lake	3
Kinsella	4	Jedney	3
Boundary Lake	3	Medicine Hat	2
Provost	3	Cow Lake	2
		Windfall	2
		Kobes Creek	2
		Grassy	2
	50		50

Notes:
1. Reserves and production are net before royalties.
2. Reserves and production locations are plotted on map in Resources division chapter.

Supplemental Information

Refining and Supply Discussion

- Petro-Canada's refineries produce a full slate of petroleum products. Included in the list are gasolines, aviation fuels, heating oils, heavy fuel oils, diesels, lubricants and asphalts.
- The Mississauga plant of the Lake Ontario refinery produces a wide range of lubricating oils and limited volumes of other petroleum products. The Montreal refinery produces, in addition to petroleum products, a limited quantity of petrochemical feedstocks and solvents. The Edmonton refinery has the capability to process 6 600 cubic metres per day of synthetic crude oil.
- Crude oil and other refinery feedstock requirements are primarily obtained from purchases in domestic markets. Petro-Canada's Western Canada upstream production supplies 31 per cent of the Corporation's refinery requirements.
- Total daily rated refining capacity decreased from 60 600 to 54 200 cubic metres per day as a result of integration measures and the sale of the Moose Jaw asphalt plant.
- Petro-Canada is party to a number of long-term processing agreements. Under these agreements, the Corporation refines crude oil on a fee basis for other industry participants, or other refiners provide similar service to Petro-Canada.

Refining by Locations

	Average daily volume of crude oil processed		Daily rated capacity[1] at December 31		Annual utilization rate	
	1989	1988	1989	1988	1989	1988
	thousands of cubic metres				per cent	
Montreal, Quebec	**11.8**	10.8	**13.9**	13.9	**85**	78
Lake Ontario, Ontario	**17.0**	15.6	**19.4**	19.4	**88**	79
Edmonton, Alberta[2]	**15.6**	14.7	**18.4**	18.4	**85**	78
Port Moody, British Columbia[3]	**–**	4.9	**–**	4.0	**–**	87
Taylor, British Columbia	**2.1**	1.9	**2.5**	2.8	**84**	64
Moose Jaw, Saskatchewan	**–**	0.6	**–**	2.1	**–**	30
Total	**46.5**	48.5	**54.2**	60.6	**86**	77

Supply Information

	Average daily volumes (thousands of cubic metres)	
	1989	1988
Net domestic supply[4]	**40.1**	45.3
Net foreign purchases	**6.4**	3.2
Processed by Petro-Canada	**46.5**	48.5
Processed for others	**(14.0)**	(14.3)
Processed by others	**11.3**	10.7
Total Petro-Canada requirements	**43.8**	44.9

Notes:

1. Daily rated capacities are based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery processes required. Variations in these factors may result in actual capacities being higher or lower than rated capacities.
2. In 1989, the Edmonton refinery processed sufficient crude to supply the Port Moody, British Columbia facility with 3 600 cubic metres per day of partially processed feedstocks.
3. To better reflect the Edmonton/Port Moody integration, the Port Moody facility was dropped from the 1989 tables. Commencing October 31, 1988, the Port Moody processing volumes consisted solely of partially processed feedstock supplied by the Edmonton refinery.
4. Net domestic supply consists of Petro-Canada's net domestic production plus purchases of domestic crude oil less the Corporation's domestic and export sales of crude oil. In addition, it includes crude oil supplied by others for processing.

Five Year Financial Summary

(stated in millions of dollars)

	1989	1988	1987	1986	1985
Summary of Earnings					
Revenue	$ 5 017	$ 4 801	$ 5 079	$ 5 172	$ 5 381
Expenses	4 848	4 771	4 765	4 937	5 083
	169	30	314	235	298
Provision for income taxes	84	41	173	161	206
Earnings (loss) before extraordinary and unusual items and dividends on redeemable preferred shares	85	(11)	141	74	92
Extraordinary and unusual items	54	22	–	–	392
Net earnings (loss) before dividends on redeemable preferred shares	31	(33)	141	74	(300)
Dividends on redeemable preferred shares	–	10	41	59	78
Net earnings (loss) after dividends on redeemable preferred shares	$ 31	$ (43)	$ 100	$ 15	$ (378)
Other Financial Data					
Working capital provided from operations	$ 569	$ 624	$ 784	$ 728	$ 870
Expenditures on property, plant and equipment and exploration	567	799	483	448	710
Increase (decrease) in investments and deferred charges	(58)	70	143	81	(326)
Acquisitions including minority interests	–	–	–	301	1 010
Total assets	6 818	6 752	6 816	6 628	7 424
Average capital employed	5 965	5 969	5 779	5 760	6 124
Operating working capital	688	606	806	549	971
Long-term debt (Note 3)	1 238	1 042	750	818	289
Redeemable preferred shares	–	–	831	922	1 224
Shareholder's equity	2 758	2 727	2 821	2 732	2 771
Annual Operating Revenues					
Resources Division					
Crude oil and natural gas liquids					
Conventional crude oil	$ 371	$ 316	$ 432	$ 349	$ 627
Synthetic crude oil	192	166	192	167	279
Field natural gas liquids	48	46	57	50	80
	611	528	681	566	986
Natural gas	246	222	203	219	292
Sulphur	21	23	25	31	34
Natural gas liquids from straddle plants	167	152	145	192	235
Other	97	64	84	72	89
Total	$ 1 142	$ 989	$ 1 138	$ 1 080	$ 1 636

	1989	1988	1987	1986	1985
Annual Operating Revenues (Continued)					
Products Division					
Gasolines	$ 2 117	$ 2 050	$ 2 240	$ 2 280	$ 2 232
Distillates	1 303	1 284	1 384	1 549	1 350
Other including petrochemicals	1 022	911	837	759	768
Total	$ 4 442	$ 4 245	$ 4 461	$ 4 588	$ 4 350
Expenditures on Property, Plant and Equipment and Exploration					
Resources Division					
Exploration					
Frontier	$ 12	$ 54	$ 41	$ 245	$ 442
Western provinces	99	129	101	62	145
Foreign	51	23	12	11	19
Development					
Western provinces	153	355	138	113	181
Foreign	8	3	–	1	6
Oil sands					
Syncrude	13	42	44	47	60
Other	7	5	5	3	15
	343	611	341	482	868
Products Division					
Refining	114	80	49	55	115
Marketing	94	79	73	57	50
	208	159	122	112	165
Support facilities	25	29	25	20	26
	576	799	488	614	1 059
Petroleum Incentive Program grants	9	–	5	166	349
Total	$ 567	$ 799	$ 483	$ 448	$ 710
Reinvestment ratio	1.03	1.30	0.64	0.68	0.90
Financial Indicators (per cent)					
Performance					
Cash flow return on capital employed	11.0	11.7	14.3	13.1	14.3
Return on capital employed	3.2	1.1	3.1	1.9	1.7
Return on equity	3.1	(0.8)	3.8	0.6	0.5
Leverage					
Cash flow to debt	27.2	29.2	35.7	31.2	32.2
Debt to debt plus equity	42.2	43.6	43.5	45.3	49.1
Interest coverage (times)					
– earnings basis	1.8	1.0	2.4	1.6	1.8
– cash flow basis	3.9	4.9	5.7	4.5	5.0

Notes:
1. Financial and operating results are included from October 1, 1985, for the operations of the assets acquired from Gulf Canada Limited except for the Edmonton refinery, and from April 1, 1986, for the operations of the Edmonton refinery.
2. Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.
3. Long-term debt includes current maturities

Five Year Operating Summary

	1989	1988	1987	1986	1985
Oil and Gas Landholdings (gross/net)					
(millions of acres)					
Canadian provinces					
Alberta – Oil and natural gas rights	**5.1/2.4**	5.3/2.6	5.4/2.6	5.8/2.8	6.4/3.1
– Oil sands rights	**2.4/.9**	2.5/.7	2.5/.9	2.7/1.0	2.6/.9
British Columbia	**2.1/1.3**	2.2/1.4	2.2/1.3	2.7/1.5	3.1/1.7
Saskatchewan	**.7/.5**	.7/.5	.5/.3	.5/.4	.5/.3
Other provinces	**.1/.1**	.3/.2	.3/.2	.8/.5	.9/.5
	10.4/5.2	11.0/5.4	10.9/5.3	12.5/6.2	13.5/6.5
Frontier Canada	**15.1/11.4**	16.2/11.8	19.7/13.5	35.1/19.7	81.5/40.6
International	**11.7/6.7**	9.6/3.6	3.2/1.7	2.8/1.3	8.4/2.7
Total	**37.2/23.3**	36.8/20.8	33.8/20.5	50.4/27.2	103.4/49.8
Wells Drilled (gross/net)					
Canadian provinces – exploratory wells					
Oil	**10/9**	20/14	20/11	21/13	42/30
Gas	**18/16**	35/26	10/6	34/15	50/27
Dry	**27/21**	33/22	35/25	42/24	75/53
	55/46	88/62	65/42	97/52	167/110
Canadian provinces – development wells					
Oil	**96/23**	176/91	199/74	283/51	482/169
Gas	**65/28**	90/39	45/27	32/10	47/26
Oil sands	**20/6**	266/133	75/38	4/2	–/–
Dry	**11/5**	15/7	20/13	14/7	48/21
	192/62	547/270	339/152	333/70	577/216
Frontier Canada and international					
– exploratory and development wells					
Oil	**6/2**	3/2	3/1	9/2	16/4
Gas	**1/0**	1/0	–/–	9/3	10/4
Dry	**4/2**	8/2	6/2	19/6	26/7
	11/4	12/4	9/3	37/11	52/15
Total	**258/112**	647/336	413/197	467/133	796/341
Proved Reserves					
(net, before royalties/after royalties)					
Natural gas (trillions of cubic feet)	**3.3/2.7**	3.5/2.8	3.4/2.8	3.4/2.7	3.5/2.8
Sulphur (millions of tons)	**4.6/3.9**	5.6/4.7	5.3/4.5	5.1/4.3	5.4/4.5
Crude oil and natural gas liquids					
(millions of barrels)					
Conventional crude oil	**226.8/185.3**	278.3/229.4	264.7/214.7	275.2/218.5	288.2/218.4
Synthetic crude oil	**250.0/212.5**	257.1/218.6	249.9/212.4	246.6/209.5	245.9/209.1
Natural gas liquids	**50.5/37.0**	46.3/36.9	45.1/34.1	44.8/33.1	46.8/34.6
Total	**527.3/434.8**	581.7/484.9	559.7/461.2	566.6/461.1	580.9/462.1

	1989	1988	1987	1986	1985
Daily Production					
(net, before royalties/after royalties)					
Natural gas (millions of cubic feet)	**570.8/460.1**	487.9/395.4	437.2/353.7	360.7/289.3	410.8/324.4
Sulphur (thousands of tons)	**1.0/.8**	1.0/.8	.9/.8	.8/.7	.9/.8
Crude oil and field natural gas liquids (thousands of barrels)					
Conventional crude oil	**62.3/51.7**	66.2/54.1	66.8/54.0	67.0/54.0	65.2/49.7
Synthetic crude oil	**25.2/24.6**	25.6/25.0	23.3/22.7	22.0/21.5	21.9/19.6
Field natural gas liquids	**12.9/9.5**	13.4/9.7	13.2/10.0	13.2/9.6	11.0/8.1
Total	**100.4/85.8**	105.2/88.8	103.3/86.7	102.2/85.1	98.1/77.4
Natural gas liquids production from straddle plants including ethane (thousands of barrels)	**44.8**	40.4	39.6	40.9	35.8
Average sale prices					
Crude oil and field natural gas liquids ($ per barrel)	**18.86**	15.78	22.25	18.27	36.05
Natural gas ($ per thousand cubic feet)	**1.48**	1.61	1.63	2.11	2.45
Marketing					
Retail outlets at year end	**3 295**	3 429	3 677	3 844	3 965
Petroleum products sales (thousands of cubic metres per day)					
Gasolines	**20.1**	19.4	20.3	20.3	16.3
Distillates	**15.8**	16.1	16.7	16.2	12.2
Heavy fuel oil	**2.7**	2.6	2.5	2.4	2.6
Other including petrochemicals	**5.8**	5.7	6.1	5.5	4.4
Total	**44.4**	43.8	45.6	44.4	35.5
Refining					
Refinery crude capacity at year end (thousands of cubic metres per day)	**54.2**	60.6	64.0	64.0	46.2
Crude oil processed by Petro-Canada (thousands of cubic metres per day)	**46.5**	48.5	48.4	47.2	34.2
Average refinery utilization (per cent) (Note 3)	**86**	77	76	74	78
Employees					
Number at year end	**6 468**	7 373	7 204	7 740	9 747

Notes:

1. Operating results are included from October 1, 1985, for the operations of the assets acquired from Gulf Canada Limited except for the Edmonton refinery, and from April 1, 1986, for the operations of the Edmonton refinery.
2. Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.
3. Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occured during the year.

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